HOME BANCSHARES INC
Form 10-K
February 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2015

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition period from __________ to __________

Commission File Number: 000-51904

HOME BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Arkansas	**71-0682831**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
719 Harkrider, Suite 100, Conway, Arkansas	**72032**
(Address of principal executive offices)	**(Zip Code)**

(501) 339-2929

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None	**N/A**
Title of each class	**Name of each exchange on which registered**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of accelerated filer , large accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant s common stock, par value $0.01 per share, held by non-affiliates on June 30, 2015, was $2.08 billion based upon the last trade price as reported on the NASDAQ Global Select Market of $36.56.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practical date.

Common Stock Issued and Outstanding: 70,202,170 shares as of February 19, 2016.

Documents incorporated by reference: Part III is incorporated by reference from the registrant s Proxy Statement relating to its 2016 Annual Meeting to be held on April 21, 2016.

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PART IV:

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this document, including matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operation, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to future events or our future financial performance and include statements about the competitiveness of the banking industry, potential regulatory obligations, our entrance and expansion into other markets, including through potential acquisitions, our other business strategies and other statements that are not historical facts. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, continue, expect, project, estimate, could, should, would, and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions, and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the effects of future economic conditions, including inflation or a decrease in commercial real estate and residential housing values;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes;
- the impact of the Dodd-Frank financial regulatory reform act and regulations issued thereunder;
- the risks of changes in interest rates or the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
- the effects of terrorism and efforts to combat it;
- credit risks;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with competitors offering banking products and services by mail, telephone and the Internet;
- the effect of any mergers, acquisitions or other transactions to which we or our subsidiaries may from time to time be a party, including our ability to successfully integrate any businesses that we acquire;

- the failure of assumptions underlying the establishment of our allowance for loan losses; and

- the failure of assumptions underlying the estimates of the fair values for our covered assets, FDIC indemnification asset and FDIC claims receivable.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, see Risk Factors .

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PART I

Item 1. BUSINESS
Company Overview

Home BancShares, Inc. (Home BancShares , which may also be referred to in this document as we , us or the Company) is a Conway, Arkansas headquartered bank holding company registered under the federal Bank Holding Company Act of 1956. The Company s common stock is traded through the NASDAQ Global Select Market under the symbol HOMB . We are primarily engaged in providing a broad range of commercial and retail banking and related financial services to businesses, real estate developers and investors, individuals and municipalities through our wholly owned community bank subsidiary Centennial Bank (the Bank). The Bank has branch locations in Arkansas, Florida, South Alabama and a loan production office in New York City. Although the Company has a diversified loan portfolio, at December 31, 2015 and 2014, commercial real estate loans represented 60.0% and 57.2% of gross loans and 332.4% and 285.2% of total stockholders equity, respectively. The Company s total assets, total deposits, total revenue and net income for each of the past three years are as follows:

	As of or for the Years Ended December 31,		
	2015	2014	2013
		(In thousands)	
Total assets	$ 9,289,122	$ 7,403,272	$ 6,811,861
Total deposits	6,438,509	5,423,971	5,393,046
Total revenue (interest income plus non-interest income)	442,934	380,650	257,491
Net income	138,199	113,063	66,520

Home BancShares acquires, organizes and invests in community banks that serve attractive markets. Our community banking team is built around experienced bankers with strong local relationships. The Company was formed in 1998 by an investor group led by John W. Allison, our Chairman, and Robert H. Bunny Adcock, Jr., our Vice Chairman. After obtaining a bank charter, we established First State Bank in Conway, Arkansas, in 1999. We acquired Community Bank, Bank of Mountain View and Centennial Bank in 2003, 2005 and 2008, respectively. Home BancShares and its founders were also involved in the formation of Twin City Bank and Marine Bank, both of which we acquired in 2005. During 2008 and 2009, we merged all of our banks into one charter and adopted Centennial Bank as the common name. In 2010, we acquired six banks in Florida through Federal Deposit Insurance Corporation (FDIC) assisted transactions with loss share, including Old Southern Bank, Key West Bank, Coastal Community Bank, Bayside Savings Bank, Wakulla Bank and Gulf State Community Bank. In 2012, we acquired three banks headquartered in Florida including Vision Bank, Premier Bank and Heritage Bank of Florida (Heritage). Heritage was acquired through an FDIC-assisted transaction without loss share. In 2013, we acquired Liberty Bancshares, Inc. headquartered in Jonesboro, Arkansas. During 2014, we acquired Florida Traditions Bank headquartered in Dade City, Florida and Broward Financial Holdings, Inc. headquartered in Fort Lauderdale, Florida. During 2015, we acquired Doral Bank s Florida Panhandle operations (Doral Florida), a pool of national commercial real estate loans, and Florida Business BancGroup, Inc., headquartered in Tampa, Florida. In connection with the acquisition of the pool of national commercial real estate loans, we opened a loan production office in New York City and created Centennial Commercial Finance Group (Centennial CFG).

We believe many individuals and businesses prefer banking with a locally managed community bank capable of providing flexibility and quick decisions. The execution of our community banking strategy has allowed us to rapidly build our network of banking operations through acquisitions. The following are the financial details concerning our acquisitions during the previous five years.

Acquisition of Vision Bank On February 16, 2012, Centennial Bank completed the acquisition of operating assets and liabilities of Vision Bank, a Florida state-chartered bank with its principal office located in Panama City, Florida (Vision), pursuant to a Purchase and Assumption Agreement (the Vision Agreement), dated November 16, 2011, between the Company, Centennial, Park National Corporation, parent company of Vision (Park), and Vision. As a result of the acquisition, the Company had an opportunity to increase its deposit base and reduce transaction costs. The Company also reduced costs through economies of scale.

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Prior to the acquisition, Vision conducted banking business from 17 banking offices, including eight locations in Baldwin County, Alabama, and nine locations in the Florida Panhandle counties of Bay, Gulf, Okaloosa, Santa Rosa and Walton. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $529.5 million in assets, approximately $340.3 million in performing loans including loan discounts and approximately $524.4 million of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for an additional discussion regarding the acquisition of Vision Bank.

FDIC Acquisition of Heritage Bank On November 2, 2012, Centennial Bank acquired all the deposits and substantially all the assets of Heritage Bank from the FDIC. This transaction did not include any non-performing loans or other real estate owned of Heritage. In connection with the Heritage acquisition, Centennial Bank opted to not enter into a loss-sharing agreement with the FDIC.

Prior to the acquisition, Heritage operated three banking offices located in Tampa, Lutz and Wesley Chapel, Florida. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $224.8 million in assets plus a cash settlement to balance the transaction, approximately $92.6 million in performing loans including loan discounts and approximately $219.5 million of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for an additional discussion regarding the acquisition of Heritage Bank.

Acquisition of Premier Bank On December 1, 2012, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Premier Bank (Premier), a Florida state-chartered bank with its principal office located in Tallahassee, Florida, pursuant to an Asset Purchase Agreement (the Premier Agreement) with Premier Bank Holding Company, a Florida corporation and bank holding company (PBHC), dated August 14, 2012. The Company then merged Premier with and into Centennial Bank. The Company paid a purchase price to PBHC of $1,415,000 for the Premier acquisition.

The Premier acquisition was conducted in accordance with the provisions of Section 363 of the United States Bankruptcy Code (the Bankruptcy Code) pursuant to a voluntary petition for relief under Chapter 11 of the Bankruptcy Code filed by PBHC with the United States Bankruptcy Court for the Northern District of Florida (the Bankruptcy Court) on August 14, 2012. The sale of Premier by PBHC was subject to certain bidding procedures approved by the Bankruptcy Court. No qualifying competing bids were received. The Bankruptcy Court entered a final order on November 29, 2012 approving the sale of Premier to the Company pursuant to and in accordance with the Premier Agreement.

Prior to the acquisition, Premier conducted banking business from six locations in the Florida panhandle cities of Tallahassee (five) and Quincy (one). Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $264.8 million in assets, approximately $138.1 million in loans including loan discounts and approximately $246.3 million of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013 for an additional discussion regarding the acquisition of Premier Bank.

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Acquisition of Liberty Bancshares, Inc. On October 24, 2013, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Liberty Bancshares, Inc. (Liberty), parent company of Liberty Bank of Arkansas (Liberty Bank), and merged Liberty Bank into Centennial Bank. Under the terms of the Agreement and Plan of Merger (the Liberty Agreement) dated June 25, 2013 among Home BancShares, Centennial Bank, Liberty, Liberty Bank and an acquisition subsidiary of Home BancShares, the shareholders of Liberty received approximately $290.1 million of the Company s common stock valued at the time of the closing, plus approximately $30.0 million in cash, in exchange for all outstanding shares of Liberty common stock. Home BancShares also repurchased all of Liberty s SBLF preferred stock held by the U.S. Treasury shortly after the closing. The merger significantly increased the Company s deposit market share in Arkansas making it the second largest bank holding company headquartered in Arkansas.

Prior to the acquisition, Liberty operated 46 banking offices located in Northeast Arkansas, Northwest Arkansas and Western Arkansas. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $2.82 billion in assets, approximately $1.73 billion in loans including loan discounts and approximately $2.13 billion of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Liberty Bank.

Acquisition of Florida Traditions Bank On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank (Traditions) and merged Traditions into Centennial Bank. Under the terms of the Agreement and Plan of Merger (the Traditions Agreement) dated April 25, 2014, by and among Home BancShares, Centennial Bank, and Traditions, the shareholders of Traditions received approximately $39.5 million of the Company s common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

The transaction was accretive to the Company s book value per common share and tangible book value per common share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Traditions.

Acquisition of Broward Financial Holdings, Inc. On October 23, 2014, the Company completed its acquisition of all of the issued and outstanding shares of common stock of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce (Broward Bank), and merged Broward Bank into Centennial Bank. Under the terms of the Agreement and Plan of Merger (the Broward Agreement) dated July 30, 2014 by and among Home BancShares, Centennial Bank, Broward, Broward Bank and an acquisition subsidiary of Home BancShares, the shareholders of Broward received approximately $30.2 million of the Company s common stock valued as of the closing date, plus $3.3 million in cash, in exchange for all outstanding shares of Broward common stock. The Company has also agreed to pay the Broward shareholders at an undetermined date up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial Bank from certain current Broward Bank loans. At December 31, 2014, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and the Company paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Broward.

Acquisition of Doral Bank s Florida Panhandle operations On February 27, 2015, the Company s banking subsidiary, Centennial, acquired all the deposits and substantially all the assets of Doral Bank s Florida Panhandle operations (Doral Florida) through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. Including the effects of the purchase accounting adjustments, the acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets.

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, the Company closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Doral Florida.

Acquisition of Pool of National Commercial Real Estate Loans On April 1, 2015, the Company s wholly-owned bank subsidiary, Centennial, entered into an agreement with AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller) to purchase a pool of national commercial real estate loans totaling approximately $289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The purchase of the loans was completed on April 1, 2015. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from the FDIC, as receiver for the failed Doral Bank. This pool of loans is now housed in a division of Centennial known as the Centennial CFG. The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of pool of national commercial real estate loans.

Acquisition of Florida Business BancGroup, Inc. On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities). The Company paid a purchase price to the FBBI shareholders of $104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 2,079,854 shares of its common stock valued at approximately $83.8 million as of October 1, 2015, plus approximately $20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, $2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

FBBI formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Including the effects of any purchase accounting adjustments, as of October 1, 2015, FBBI had approximately $564.5 million in total assets, $408.3 million in loans after $14.1 million of loan discounts, and $472.0 million in deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of FBBI.

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Our Management Team

The following table sets forth, as of December 31, 2015, information concerning the individuals who are our executive officers.

Name	Age	Positions Held with Home BancShares, Inc.	Positions Held with Centennial Bank
John W. Allison	69	Chairman of the Board	Chairman of the Board
C. Randall Sims	61	Chief Executive Officer, President and Director	Director
Brian S. Davis	50	Chief Financial Officer, Treasurer and Director	Chief Financial Officer, Treasurer and Director
Jennifer C. Floyd	41	Chief Accounting Officer and Investor Relations Officer	Chief Accounting Officer
Kevin D. Hester	52	Chief Lending Officer	Chief Lending Officer and Director
J. Stephen Tipton	34	Chief Operating Officer	Chief Operating Officer
Tracy M. French	54	Director	Chief Executive Officer, President and Director
Donna J. Townsell	45	Senior Executive Vice President	Senior Executive Vice President
Robert F. Birch, Jr.	65		Regional President
Russell D. Carter, III	40		Regional President
Jim Haynes	49		Regional President

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Our Growth Strategy

Our goals are to achieve growth in earnings per share and to create and build stockholder value. Our growth strategy entails the following:

Strategic acquisitions Strategic acquisitions have been a significant component of our historical growth strategy, and we believe properly priced bank acquisitions can continue to be a large part of our growth strategy. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets through pursuing both non-FDIC-assisted and FDIC-assisted bank acquisitions, although we may expand into other areas if attractive financial opportunities in other market areas arise. We are continually evaluating potential bank acquisitions to determine what is in the best interests of our Company. Our goals in making these decisions are to maximize the return to our shareholders and to enhance our franchise.

Organic growth We believe our current branch network provides us with the capacity to grow within our existing market areas. We also believe we are well positioned to attract new business and additional experienced personnel as a result of ongoing changes in our competitive markets. We believe the markets we entered into as a result of historical acquisitions provide us opportunities for organic growth as we now have a presence in several large markets where our market share has not previously been significant. Additionally, through the creation of Centennial CFG, we are building out a national lending platform focusing on commercial real estate plus commercial and industrial loans and have plans to open a deposit-only branch location in New York City in 2016. Overall, we expect the organic loan growth we experienced in 2015 to continue in all of our markets as the economic environment has improved.

De novo branching As opportunities arise, we will evaluate new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2015, no *de novo* branches were opened. We will continue to evaluate opportunities during 2016 in our contiguous markets and make those decisions on a case by case basis in the best interest of the shareholders.

Community Banking Philosophy

Our community banking philosophy consists of four basic principles:

- manage our community banking franchise with experienced bankers and community bank boards who are empowered to make customer-related decisions quickly;
- provide exceptional service and develop strong customer relationships;
- pursue the business relationships of our local boards of directors, executive officers, stockholders, and customers to actively promote our community bank; and

maintain our commitment to the communities we serve by supporting civic and nonprofit organizations. These principles, which make up our community banking philosophy, are the driving force for our business. As we streamlined our legacy business into an efficient banking network and have integrated new acquisitions, we have preserved lending authority with local management in most cases by using community bank boards that maintain an integral connection to the communities we serve. These community bank boards are generally empowered with lending authority of up to $6.0 million in their respective geographic areas. This allows us to capitalize on the strong relationships that these individuals and our local bank officers have in their respective communities to maintain and grow our business. Through experienced and empowered local bankers and board members, we are committed to maintaining a community banking experience for our customers.

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Operating Goals

Our operating goals focus on maintaining strong credit quality, increasing profitability, finding experienced bankers, and maintaining a fortress balance sheet:

Maintain strong credit quality Credit quality is our first priority. We employ a set of credit standards designed to ensure the proper management of credit risk. Our management team plays an active role in monitoring compliance with these credit standards in the different communities served by Centennial Bank. We have a centralized loan review process, which we believe enables us to take prompt action on potential problem loans. During the past few years we have taken an aggressive approach to resolving problem loans, including those problem loans acquired in the FDIC-assisted and non-FDIC-assisted acquisitions. We are committed to maintaining high credit quality standards.

Continue to improve profitability We will continue to strive to improve our profitability and achieve high performance ratios as we continue to utilize the available capacity of branches and employees. During 2015, we acquired Doral Florida and FBBI and converted them into our operating systems. In addition, upon conversion, we closed all five Doral Florida branch locations as we already operated 29 branch locations in the Florida Panhandle. These conversions and closures will provide tremendous opportunities for improved profitably as a result of cost savings because of the economies of scale for the combined companies. Additionally, during 2015, we created Centennial CFG who is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans. As we work out the problem loans in our special assets department, we plan to emphasize business development and relationship enhancement in lending and retail areas in these newly acquired markets. Our core efficiency ratio has improved from 59.4% for the year ended 2008 to 39.5% for the year ended 2015. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gain and losses. These improvements in operating efficiency are being driven by, among other factors, increasing revenue from organic loan growth, improving our cost savings from the acquisitions, implementing our efficiency study initiatives, streamlining the processes in our lending and retail operations and improving our purchasing power.

Attract and motivate experienced bankers We believe a major factor in our success has been our ability to attract and motivate bankers who have experience in and knowledge of their local communities. Historically, our hiring and retaining experienced relationship bankers has been integral to our ability to grow quickly when entering new markets. Specifically, as a result of the creation of Centennial CFG, we were able to hire a group of experienced lenders with knowledge of the New York business climate and national commercial lending platforms, which presents us with a tremendous opportunity for loan growth.

Maintain a fortress balance sheet We intend to maintain a strong balance sheet through a focus on four key governing principles: (1) maintain solid asset quality; (2) remain well-capitalized; (3) pursue high performance metrics including return on tangible equity (ROTE), return on assets (ROA), efficiency ratio and net interest margin; and (4) retain liquidity at the bank holding company level that can be utilized should attractive acquisition opportunities be identified or for internal capital needs. We strive to maintain capital levels above the regulatory capital requirements through our focus on these governing principles, which historically has allowed us to take advantage of acquisition opportunities as they become available without the need for additional capital.

Our Market Areas

As of December 31, 2015, we conducted business principally through 79 branches in Arkansas, 61 branches in Florida, six branches in Alabama and a loan production office in New York City. Our branch footprint includes markets in which we are the deposit market share leader as well as markets where we believe we have opportunities for deposit market share growth.

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Lending Activities

We originate loans primarily secured by single and multi-family real estate, residential construction and commercial buildings. In addition, we make loans to small and medium-sized commercial businesses as well as to consumers for a variety of purposes.

Our loan portfolio as of December 31, 2015, was comprised as follows:

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable	Percentage of portfolio
	(Dollars in thousands)			
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 2,968,147	$ 188	$ 2,968,335	44.7%
Construction/land development	943,095	1,692	944,787	14.2
Agricultural	75,027		75,027	1.1
Residential real estate loans				
Residential 1-4 family	1,130,714	59,565	1,190,279	17.9
Multifamily residential	429,872	384	430,256	6.5
Total real estate	5,546,855	61,829	5,608,684	84.4
Consumer	52,258		52,258	0.8
Commercial and industrial	850,357	230	850,587	12.9
Agricultural	67,109		67,109	1.0
Other	62,822	111	62,933	0.9
Total	$ 6,579,401	$ 62,170	$ 6,641,571	100.0%

Real Estate Non-farm/Non-residential. Non-farm/non-residential real estate loans consist primarily of loans secured by income-producing properties, such as shopping/retail centers, hotel/motel properties, office buildings, and industrial/warehouse properties. Commercial lending on income-producing property typically involves higher loan principal amounts, and the repayment of these loans is dependent, in large part, on sufficient income from the properties collateralizing the loans to cover operating expenses and debt service. This category of loans also includes specialized properties such as churches, marinas, and nursing homes. Additionally, we make commercial mortgage loans to entities to operate in these types of properties, and the repayment of these loans is dependent, in large part, on the cash flow generated by these entities in the operations of the business. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Construction/Land Development. This category of loans includes loans to residential and commercial developers to purchase raw land and to develop this land into residential and commercial land developments. In addition, this category includes construction loans for all of the types of real estate loans made by the Bank, including both commercial and residential. These loans are generally secured by a first lien on the real estate being purchased or developed. Often, the primary source of repayment will be the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Real Estate Residential. Our residential mortgage loan program primarily originates loans to individuals for the purchase of residential property. We generally do not retain long-term, fixed-rate residential real estate loans in our portfolio due to interest rate and collateral risks. Residential mortgage loans to individuals retained in our loan portfolio primarily consisted of approximately 36.9% owner occupied 1-4 family properties and approximately 43.3% non-owner occupied 1-4 family properties (rental) as of December 31, 2015. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. Often, a secondary source of repayment will include the sale of the subject collateral. When this is the case, it is generally our practice to obtain an independent appraisal of this collateral within the Interagency Appraisal and Evaluation Guidelines.

Consumer. While our focus is on service to small and medium-sized businesses, we also make a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans. The primary source of repayment for these loans is generally the income and/or assets of the individual to whom the loan is made. When secured, we may independently assess the value of the collateral using a third-party valuation source.

Commercial and Industrial. Our commercial and industrial loan portfolio primarily consisted of 53.2% inventory/accounts receivable (AR) financing, 21.8% equipment/vehicle financing and 25.0% other, including letters of credit at less than 1%, as of December 31, 2015. This category includes loans to smaller business ventures, credit lines for working capital and short-term inventory financing, for example. These loans are typically secured by the assets of the business, and are supplemented by personal guaranties of the principals and often mortgages on the principals primary residences. The primary source of repayment may be conversion of the assets into cash flow, as in inventory and accounts receivable, or may be cash flow generated by operations, as in equipment/vehicle financing. Assessing the value of inventory can involve many factors including, but not limited to, type, age, condition, level of conversion and marketability, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of accounts receivable can involve many factors including, but not limited to, concentration, aging, and industry, and can involve applying a discount factor or obtaining an independent valuation, based on the assessment of the above factors. Assessing the value of equipment/vehicles may involve a third-party valuation source, where applicable.

Credit Risks. The principal economic risk associated with each category of the loans that we make is the creditworthiness of the borrower and the ability of the borrower to repay the loan. General economic conditions and the strength of the services and retail market segments affect borrower creditworthiness. General factors affecting a commercial borrower s ability to repay include interest rates, inflation and the demand for the commercial borrower s products and services as well as other factors affecting a borrower s customers, suppliers and employees.

Risks associated with real estate loans also include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates, and in the case of commercial borrowers, the quality of the borrower s management. Consumer loan repayments depend upon the borrower s financial stability and are more likely to be adversely affected by divorce, job loss, illness and other personal hardships.

Lending Policies. We have established common loan documentation procedures and policies, based on the type of loan, for our bank subsidiary. The board of directors periodically reviews these policies for validity. In addition, it has been and will continue to be our practice to attempt to independently verify information provided by our borrowers, including assets and income. We have not made loans similar to those commonly referred to as no doc or stated income loans. We focus on the primary and secondary methods of repayment, and prepare global cash flows where appropriate. There are legal restrictions on the dollar amount of loans available for each lending relationship. The Arkansas Banking Code provides that no loan relationship may exceed 20% of a bank s risk based capital, and we are in compliance with this restriction. In addition, we are not dependent upon any single lending relationship for an amount exceeding 10% of our revenues. As of December 31, 2015, the maximum amount outstanding to a single borrower was $137.7 million. As a community lender, we believe from time to time it is in our best interest to agree to modifications or restructurings. These modifications/restructurings can take the form of a reduction in interest rate, a move to interest-only from principal and interest payments, or a lengthening in the amortization period or any combination thereof. Occasionally, we will modify/restructure a single loan by splitting it into two loans following the interagency guidance involving the workout of commercial real estate loans. The loan representing the portion that is supported by the current cash flow of the borrower or project will remain on the Bank s books, while the new loan representing the portion that cannot be serviced by the current cash flow is charged-off. Furthermore, we may make an additional loan or loans to a borrower or related interest of a borrower who is past due more than 90 days. These circumstances will be very limited in nature, and when approved by the appropriate lending authority, will likely involve obtaining additional collateral that will improve the collectability of the overall relationship. It is our belief that judicious usage of these tools can improve the quality of our loan portfolio by providing our borrowers an improved probability of survival during difficult economic times.

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Loan Approval Procedures. Our bank subsidiary has supplemented our common loan policies to establish its loan approval procedures as follows:

Individual Authorities. The board of directors of Centennial Bank establishes the authorization levels for individual loan officers on a case-by-case basis. Generally, the more experienced a loan officer, the higher the authorization level. The approval authority for individual loan officers ranges from $25,000 to $1.0 million for secured loans and from $1,000 to $100,000 for unsecured loans.

Officers Loan Committees. Our bank subsidiary also gives its Officers Loan Committees loan approval authority. Credits in excess of individual loan limits are submitted to the region s Officers Loan Committee. The Officers Loan Committee consists of members of the senior management team of that region and is chaired by that region s chief lending officer. The regional Officers Loan Committees have approval authority of up to $2.0 million secured and $500,000 unsecured.

Directors Loan Committee. Each region throughout our bank subsidiary has a Directors Loan Committee consisting of outside directors and senior lenders of that region. Generally, each region requires a majority of outside directors be present to establish a quorum. Generally, this committee is chaired either by the Regional Chief Lending Officer or the Regional President. The regional Directors Loan Committees have approval authority up to $6.0 million secured and $500,000 unsecured.

Executive Loan Committee The board of directors of Centennial Bank established the Executive Loan Committee consisting of three outside board members and members of executive management. This committee requires five voting members to establish a quorum, including at least two of the outside board members, and is chaired by the Chief Lending Officer of the Bank. The Executive Loan Committee has approval authority up to the in-house consolidated lending limit of $20.0 million.

Currently, our board of directors has established an in-house consolidated lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman and our director Richard H. Ashley. We have 20 separate relationships that exceed this in-house limit.

Deposits and Other Sources of Funds

Our principal source of funds for loans and investing in securities is core deposits. We offer a wide range of deposit services, including checking, savings, money market accounts and certificates of deposit. We obtain most of our deposits from individuals and small businesses, and municipalities in our market areas. We believe that the rates we offer for core deposits are competitive with those offered by other financial institutions in our market areas. Additionally, our policy also permits the acceptance of brokered deposits. Secondary sources of funding include advances from the Federal Home Loan Banks of Dallas, the Federal Reserve Bank Discount Window and other borrowings. These secondary sources enable us to borrow funds at rates and terms which, at times, are more beneficial to us.

Other Banking Services

Given customer demand for increased convenience and account access, we offer a range of products and services, including 24-hour internet banking, mobile banking and voice response information, cash management, overdraft protection, direct deposit, safe deposit boxes, United States savings bonds and automatic account transfers. We earn fees for most of these services. We also receive ATM transaction fees from transactions performed by our customers participating in a shared network of automated teller machines and a debit card system that our customers can use throughout the United States, as well as in other countries.

Insurance

Centennial Insurance Agency, Inc. is an independent insurance agency, originally founded in 1959 and purchased July 1, 2000, by Centennial Bank. In connection with the 2013 purchase of Liberty, we acquired Town and Country Insurance. Shortly after the acquisition of Liberty we merged Town and Country Insurance into Centennial Insurance Agency. As a result, all of the offices in Arkansas operated as Centennial Insurance Agency, Inc. at December 31, 2014. On January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The profitability on this book of business was immaterial.

The offices of Centennial Insurance Agency are currently located in Jacksonville, Cabot and Conway, Arkansas.

Centennial Insurance Agency writes policies for commercial and personal lines of business including insurance for property, casualty, life, health and employee benefits. It is subject to regulation by the Arkansas Insurance Department.

Cook Insurance Agency, Inc. is an independent insurance agency, originally founded in 1913 and acquired November 19, 2010, by Centennial Bank during the FDIC acquisition of Gulf State Community Bank. Cook Insurance Agency writes policies for commercial and personal lines of business including life insurance. It is subject to regulation by the Florida Insurance Department. The offices of Cook Insurance Agency are located in Apalachicola and Crawfordville, Florida.

The Company may merge the book of business of Cook Insurance Agency into the Centennial Insurance Agency at some point in the future.

Trust Services

The Centennial Bank trust department offers a broad array of trust services. These trust services, focusing primarily on personal trusts, corporate trusts and employee benefit trusts.

Competition

As of December 31, 2015, we conducted business through 146 branches in our primary market areas of Pulaski, Faulkner, Craighead, Lonoke, Pope, Washington, White, Benton, Greene, Sebastian, Baxter, Cleburne, Independence, Stone, Clay, Conway, Crawford, Johnson, Saline, Sharp and Yell Counties in Arkansas and Monroe, Hillsborough, Leon, Bay, Franklin, Gulf, Broward, Charlotte, Collier, Escambia, Orange, Osceola, Pasco, Polk, Walton, Calhoun, Gadsden, Hernando, Lake, Liberty, Okaloosa, Pinellas, Santa Rosa, Sarasota, Seminole, Wakulla, Counties in Florida and Baldwin County in Alabama. Many other commercial banks, savings institutions and credit unions have offices in our primary market areas. These institutions include many of the largest banks operating in Arkansas and Florida, including some of the largest banks in the country. Many of our competitors serve the same counties we do. Our competitors often have greater resources, have broader geographic markets, have higher lending limits, offer various services that we may not currently offer and may better afford and make broader use of media advertising, support services and electronic technology than we do. To offset these competitive disadvantages, we depend on our reputation as having greater personal service, consistency, and flexibility and the ability to make credit and other business decisions quickly.

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Employees

On December 31, 2015, we had 1,424 full-time equivalent employees. Except for any employees acquired in future acquisitions, we expect that our 2016 staffing levels will be slightly lower than those at year end 2015 as we continue to achieve efficiencies throughout our Company. We consider our employee relations to be good, and we have no collective bargaining agreements with any employees.

SUPERVISION AND REGULATION

General

We and our bank subsidiary are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of our company and its operations. These laws generally are intended to protect depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and not stockholders. The following discussion describes the material elements of the regulatory framework that applies to us.

Financial Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) made extensive changes in the regulation of financial institutions and their holding companies. The Dodd-Frank Act contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The act includes provisions that, among other things:

- Centralized responsibility for consumer financial protection by creating the Consumer Financial Protection Bureau, which is responsible for implementing, examining, and enforcing compliance with federal consumer financial laws, including mortgage disclosure laws.

- Created the Financial Stability Oversight Council that provides comprehensive monitoring to ensure the stability of our nation s financial system.

- Provided mortgage reform provisions regarding a customer s ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions.

- Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (DIF), and increased the floor on the size of the DIF, which generally will require an increase in the level of assessments for institutions with assets in excess of $10 billion.

Made permanent the $250,000 limit for federal deposit insurance and temporarily provided unlimited federal deposit insurance until January 1, 2013 for noninterest-bearing demand transaction accounts at all insured depository institutions.

Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.

Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transactions and other accounts.

Amended the Electronic Funds Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

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Many provisions of the Dodd-Frank Act have delayed effective dates, and the legislation requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. These agencies are still in the process of promulgating the required regulations, and the studies and reports could potentially result in additional legislative or regulatory action. The substance and scope of these regulations therefore cannot be completely determined at this time. We expect our operating and compliance costs to continue to increase as a result of the Dodd-Frank Act and implementing its regulations.

Home BancShares

We are a bank holding company registered under the federal Bank Holding Company Act of 1956 (the Bank Holding Company Act) and are subject to supervision, regulation and examination by the Federal Reserve Board. The Bank Holding Company Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve Board s prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank s voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Under the Bank Holding Company Act, if well-capitalized and well managed, we, as well as other bank holding companies located within the states in which we operate, may purchase a bank located outside of those states. Conversely, a well-capitalized and well managed bank holding company located outside of the states in which we operate may purchase a bank located inside those states. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

Permitted Activities. A bank holding company is generally permitted under the Bank Holding Company Act to engage in or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found to be so closely related to banking as to be a proper incident to the business of banking include but are not limited to: factoring accounts receivable; making, acquiring, brokering or servicing loans and usual related activities; leasing personal or real property; operating a non-bank depository institution, such as a savings association; trust company functions; financial and investment advisory activities; conducting securities brokerage activities; underwriting and dealing in government obligations and money market instruments; providing specified management consulting and counseling activities; performing selected data processing services and support services; acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and performing selected insurance underwriting activities.

Support of Subsidiary Institutions. Under the Dodd-Frank Act, we are required to act as a source of financial strength for our bank subsidiary and to commit resources to support the bank. Under current federal law, the Federal Reserve may require us to make capital injections into our bank subsidiary and may charge us with engaging in unsafe and unsound practices if we fail to commit resources to our bank subsidiary or if we undertake actions that the Federal Reserve believes might jeopardize our ability to commit resources to the bank. As a result, an obligation to support our bank subsidiary may be required at times when, without this requirement, we might not be inclined to provide it.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board s Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the Federal Reserve Board could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1 million for each day the activity continues.

Annual Reporting; Examinations. We are required to file annual reports with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may examine a bank holding company or any of its subsidiaries, and charge the company for the cost of such examination.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies having $500 million or more in assets on a consolidated basis. We currently have consolidated assets in excess of $500 million, and are therefore subject to the Federal Reserve Board s capital adequacy guidelines.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a risk-weighted asset base. The guidelines in effect as of December 31, 2015 require a minimum total risk-based capital ratio of 8.0% (of which at least 6.0% is required to consist of Tier 1 capital elements) and a total risk-based capital ratio of at least 10% (of which at least 8.0% is required to consist of Tier 1 capital elements) to be well-capitalized. Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2015, our Tier 1 risk-based capital ratio was 11.26% and our total risk-based capital ratio was 12.16%. Thus, as of December 31, 2015, we are considered well-capitalized for regulatory purposes.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company s Tier 1 capital divided by its average total consolidated assets. Certain highly-rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%. Well-capitalized is a leverage ratio in excess of 5%. As of December 31, 2015, our leverage ratio was 9.91%.

The federal banking agencies risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions, substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The Dodd-Frank Act includes certain provisions concerning the capital regulations of the federal banking agencies. These provisions, often referred to as the Collins Amendment, are intended to subject bank holding companies to the same capital requirements as their bank subsidiaries and to eliminate or significantly reduce the use of hybrid capital instruments, especially trust preferred securities, as regulatory capital. Under the Collins Amendment, trust preferred securities issued before May 19, 2010 by a company, such as our Company, with total consolidated assets of less than $15 billion as of December 31, 2009, and treated as regulatory capital are grandfathered, but any such securities issued later are not eligible as regulatory capital. The Collins Amendment requires banking regulators to develop regulations setting minimum risk-based and leverage capital requirements for holding companies and banks on a consolidated basis that are no less stringent than the generally applicable requirements in effect for depository institutions under the prompt corrective action regulations discussed below. The banking regulators also must seek to make capital standards countercyclical so that the required levels of capital increase in times of economic expansion and decrease in times of economic contraction.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision in Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more and savings and loan holding companies (collectively, banking organizations). Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. As of December 31, 2015, the Company s common equity Tier 1 capital ratio was 10.50%. The final rule permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15 billion as of December 31, 2009. The rule phases out of Tier 1 capital these non-qualifying capital instruments issued before May 19, 2010 by all other bank holding companies. The final rule also limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. As of December 31, 2015, our capital conservation buffer was zero.

Subsidiary Bank

General. Our bank subsidiary, Centennial Bank, is chartered as an Arkansas state bank and is a member of the Federal Reserve System, making it primarily subject to regulation and supervision by both the Federal Reserve Board and the Arkansas State Bank Department. In addition, our bank subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that they may charge, and limitations on the types of investments they may make and on the types of services they may offer. Various consumer laws and regulations also affect the operations of our bank subsidiary.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) in which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. The federal banking agencies have specified by regulation the relevant capital level for each category.

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An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

The Basel III final rule issued by the federal bank regulatory agencies in July 2013 amended the prompt corrective action rules to incorporate a common equity Tier 1 capital requirement and to raise the capital requirements for certain capital categories. These rules are effective as of January 1, 2015. In order to be adequately capitalized for purposes of the prompt corrective action rules, a banking organization will be required to have at least an 8% total risk-based capital ratio, a 4% Tier 1 risk-based capital ratio, a 4.5% common equity Tier 1 risk-based capital ratio and a 4% Tier 1 leverage ratio. To be well-capitalized, a banking organization will be required to have at least a 10% total risk-based capital ratio, an 6% Tier 1 risk-based capital ratio, a 6.5% common equity Tier 1 risk-based capital ratio and a 5% Tier 1 leverage ratio.

FDIC Insurance and Assessments. Centennial Bank s deposit accounts are insured up to applicable limits by the FDIC s Deposit Insurance Fund (DIF). The Dodd-Frank Act permanently increased the deposit coverage limit to $250,000 per depositor retroactive to January 1, 2008.

The FDIC imposes an assessment against institutions for deposit insurance. This assessment is based primarily on the risk category of the institution and certain risk adjustments specified by the FDIC, with riskier institutions paying higher assessments.

In October 2010, the FDIC adopted a new restoration program for the DIF to help bolster the DIF reserve ratio to 1.35% by September 30, 2020, as required by the Dodd-Frank Act. The plan provides that, at least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

On February 7, 2011, the FDIC approved a final rule implementing changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act, which became effective on April 1, 2011. The final rule, among other things, changed the assessment base for insured depository institutions from adjusted domestic deposits to the institution s average consolidated total assets during an assessment period less average tangible equity capital (Tier 1 capital) during that period. The rule revised the assessment rate schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest institutions. The rule also suspended indefinitely the requirement of the FDIC to pay dividends from the DIF when it reaches 1.5% of insured deposits. In lieu of the dividends, the FDIC adopted progressively lower assessment rate schedules when the reserve ratio exceeds 1.15%, 2.0% and 2.5%, respectively.

Under the Federal Deposit Insurance Act, as amended, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires, in connection with examinations of financial institutions, that federal banking regulators evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank subsidiary. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements. Our bank subsidiary received a satisfactory CRA rating from the Federal Reserve Bank during its last exam as published in our bank s CRA Public Evaluation.

Other Regulations. Interest and other charges collected or contracted for by our bank subsidiary are subject to state usury laws and federal laws concerning interest rates.

Loans to Insiders. Sections 22(g) and (h) of the Federal Reserve Act and its implementing regulation, Regulation O, place restrictions on loans by a bank to executive officers, directors, and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank and certain of their related interests, or insiders, and insiders of affiliates, may not exceed, together with all other outstanding loans to such person and related interests, the bank s loans-to-one-borrower limit (generally equal to 15% of the institution s unimpaired capital and surplus). Section 22(h) also requires that loans to insiders and to insiders of affiliates be made on terms substantially the same as offered in comparable transactions to other persons, unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to insiders over other employees of the bank. Section 22(h) also requires prior Board of Director s approval for certain loans, and the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Capital Requirements. Our bank subsidiary is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain adequate levels of capital in accordance with guidelines promulgated from time to time by applicable regulators. The regulating agencies consider a bank s capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of individual banks and the banking system. The Federal Reserve Bank monitors the capital adequacy of our bank subsidiary by using a combination of risk-based guidelines and leverage ratios.

The FDIC Improvement Act. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA, made a number of reforms addressing the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions, and improvement of accounting standards. This statute also limited deposit insurance coverage, implemented changes in consumer protection laws and provided for least-cost resolution and prompt regulatory action with regard to troubled institutions.

FDICIA requires every bank with total assets in excess of $500 million to have an annual independent audit made of the bank s financial statements by an independent public accountant to verify that the financial statements of the bank are presented fairly and in accordance with generally accepted accounting principles and comply with such other disclosure requirements as prescribed by the FDIC. FDICIA also places certain restrictions on activities of banks depending on their level of capital.

The capital classification of a bank affects the frequency of examinations of the bank and impacts the ability of the bank to engage in certain activities and affects the deposit insurance premiums paid by such bank. Under FDICIA, the federal banking regulators are required to conduct a full-scope, on-site examination of every bank at least once every 12 months.

Brokered Deposits. Under FDICIA, banks may be restricted in their ability to accept brokered deposits, depending on their capital classification. Well-capitalized banks are permitted to accept brokered deposits, but all banks that are not well-capitalized are not permitted to accept such deposits. The FDIC may, on a case-by-case basis, permit banks that are adequately capitalized to accept brokered deposits if the FDIC determines that acceptance of such deposits would not constitute an unsafe or unsound banking practice with respect to the bank.

Federal Home Loan Bank System. The Federal Home Loan Bank system, of which our bank subsidiary is a member, consists of regional FHLBs governed and regulated by the Federal Housing Finance Agency, or FHFA. The FHLBs serve as reserve or credit facilities for member institutions within their assigned regions. They are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. They make loans (i.e., advances) to members in accordance with policies and procedures established by the FHLB and the Boards of

Directors of each regional FHLB.

As a system member, our bank subsidiary is entitled to borrow from the FHLB of its region and is required to own a certain amount of capital stock in the FHLB. Our bank subsidiary is in compliance with the stock ownership rules with respect to such advances, commitments and letters of credit and home mortgage loans and similar obligations. All loans, advances and other extensions of credit made by the FHLB to our bank subsidiary are secured by a portion of its respective loan portfolio, certain other investments and the capital stock of the FHLB held by such bank.

Mortgage Banking Operations. Our bank subsidiary is subject to the rules and regulations of FHA, VA, FNMA, FHLMC and GNMA with respect to originating, processing, selling and servicing mortgage loans and the issuance and sale of mortgage-backed securities. Those rules and regulations, among other things, prohibit discrimination and establish underwriting guidelines which include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts, and, with respect to VA loans, fix maximum interest rates. Mortgage origination activities are subject to, among others, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder which, among other things, prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs. In addition, our bank subsidiary is subject to the Secure and Fair Enforcement for Mortgage Licensing Act of 2008, or SAFE Act, and the rules promulgated thereunder which, among other things, require residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states. As part of this registration process, mortgage loan originators must furnish the Registry with certain information and fingerprints and undergo a criminal background check. Our bank subsidiary is also subject to regulation by the Arkansas State Bank Department, as applicable, with respect to, among other things, the establishment of maximum origination fees on certain types of mortgage loan products.

The Consumer Financial Protection Bureau (CFPB) created by the Dodd-Frank Act took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. Institutions that have assets of $10 billion or less, such as our bank subsidiary, will continue to be supervised and examined in this area by their primary federal regulators (in the case of our bank subsidiary, the Federal Reserve Board). However, the Dodd-Frank Act gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the QM Rule). The ability-to-repay provision requires creditors to make reasonable, good faith determinations that borrowers are able to repay their mortgages before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. The lender is presumed to have satisfied the ability-to-repay requirements if the loan is a qualified mortgage, which meets certain requirements related to the loan s amortization, fees, payment terms and maturity as well as the borrower s debt-to-income ratio. The QM Rule became effective January 10, 2014.

Payment of Dividends

We are a legal entity separate and distinct from our bank subsidiary and other affiliated entities. The principal sources of our cash flow, including cash flow to pay dividends to our stockholders, are dividends that our bank subsidiary pays to us as its sole stockholder. Statutory and regulatory limitations apply to the dividends that our bank subsidiary can pay to us, as well as to the dividends we can pay to our stockholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary bank also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company s ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Arkansas law.

There are certain state-law limitations on the payment of dividends by our bank subsidiary. Centennial Bank, which is subject to Arkansas banking laws, may not declare or pay a dividend of 75% or more of the net profits of such bank after all taxes for the current year plus 75% of the retained net profits for the immediately preceding year without the prior approval of the Arkansas State Bank Commissioner. Members of the Federal Reserve System must also comply with the dividend restrictions with which a national bank would be required to comply. Among other things, these restrictions require that if losses have at any time been sustained by a bank equal to or exceeding its undivided profits then on hand, no dividend may be paid. Although we have regularly paid dividends on our common stock beginning with the second quarter of 2003, there can be no assurances that we will be able to pay dividends in the future under the applicable regulatory limitations.

The payment of dividends by us, or by our bank subsidiary, may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under FDICIA, a depository institution may not pay any dividend if payment would result in the depository institution being undercapitalized.

Restrictions on Transactions with Affiliates

We and our bank subsidiary are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of transactions between the bank and its affiliates, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to affiliates which are collateralized by the securities or obligations of the bank or its nonbanking affiliates. An affiliate of a bank is generally any company or entity that controls, is controlled by, or is under common control with the bank.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain other transactions between the bank and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at that time for comparable transactions with or involving other non-affiliated persons.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively, the insiders) contained in Sections 22(g) and (h) of the Federal Reserve Act and in its implementing regulation, Regulation O, also apply to all insured institutions and their subsidiaries and holding companies. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Heightened Requirements for Bank Holding Companies with $10 Billion or More in Assets

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least $50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least $10 billion in total consolidated assets. Following the fourth consecutive quarter (and any applicable phase-in period) where our or our bank subsidiary s total consolidated assets, as applicable, equal or exceed $10 billion, we or our bank subsidiary, as applicable, will, among other requirements:

- be required to perform annual stress tests as follows: In October 2012, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the Federal Reserve and the FDIC published final rules regarding company-run stress testing. These rules require bank holding companies and banks with average total consolidated assets greater than $10 billion to conduct an annual company-run stress test of capital, consolidated earnings and losses under one base and at least two stress scenarios provided by the federal bank regulators. Neither we nor our bank subsidiary is currently subject to the stress testing requirements, but we expect that once we are subject to those requirements, the Federal Reserve, the FDIC and the Arkansas State Bank Department will consider our results as an important factor in evaluating our capital adequacy, and that of our bank subsidiary, in evaluating any proposed acquisitions and in determining whether any proposed dividends or stock repurchases by us or by our bank subsidiary may be an unsafe or unsound practice;

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be required to establish a dedicated risk committee of our board of directors responsible for overseeing our enterprise-wide risk management policies, which must be commensurate with our capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors, and including as a member at least one risk management expert;

calculate our FDIC deposit assessment base using the performance score and a loss-severity score system as follows: For institutions with $10 billion or more in assets, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank s capital level and regulatory supervisory ratings and certain financial measures to assess an institution s ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances; and

be examined for compliance with federal consumer protection laws primarily by the CFPB.

Beginning on July 1 of the calendar year following the year in which our total consolidated assets pass the $10 billion threshold, we will also become subject to the so-called Durbin Amendment to the Dodd-Frank Act relating to debit card interchange fees, called swipe fees. Under the Durbin Amendment and the Federal Reserve s implementing regulations, bank issuers who are not exempt may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. The maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. Currently, we are exempt from the Durbin Amendment s limitations on interchange fees because we and our bank subsidiary have total consolidated assets of less than $10 billion.

While neither we nor our bank subsidiary are currently subject to the above requirements, we have begun analyzing these rules to ensure we are prepared to comply with the rules if and when they become applicable to us. We believe they could become applicable to us as early as 2017.

Incentive Compensation

The Dodd-Frank Act requires the federal bank regulators and the Securities and Exchange Commission (the SEC) to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements.

In June 2010, the Federal Reserve and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (1) provide incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (2) be compatible with effective internal controls and risk management and (3) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

In April 2011, the Federal Reserve, other federal banking agencies and the SEC jointly published proposed rulemaking designed to implement the provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as the Company and our bank subsidiary. The proposed joint compensation regulations would require compensation practices consistent with the three principles discussed above. As of February 1, 2016, these regulations have not been finalized. Unless and until a final rule is adopted, we cannot fully determine whether compliance with such a rule will adversely affect the Company s or our bank subsidiary s ability to hire, retain and motivate our key employees.

The Volcker Rule

The Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring hedge funds and private equity funds. The statutory provision is commonly called the Volcker Rule. In December 2013, federal regulators adopted final rules to implement the Volcker Rule that became effective in April 2014. The Federal Reserve, however, issued an order extending the period that institutions have to conform their activities to the requirements of the Volcker Rule to July 21, 2015. In addition, the Federal Reserve recently granted an additional extension until July 21, 2016 of the conformance period for banking entities to conform investments in and relationships with covered funds that were in place prior to December 31, 2013, and announced its intention to further extend this aspect of the conformance period until July 21, 2017. Banks with less than $10 billion in total consolidated assets, such as our bank, that do not engage in any covered activities, other than trading in certain government, agency, state or municipal obligations, do not have any significant compliance obligations under the rules implementing the Volcker Rule. We are continuing to evaluate the effects of the Volcker Rule on our business, but we do not currently anticipate that the Volcker Rule will have a material effect on our operations.

Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. We and our subsidiary have established policies and procedures to assure our compliance with all privacy provisions of the Gramm-Leach-Bliley Act.

Anti-Terrorism and Money Laundering Legislation

Our bank subsidiary is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Our bank subsidiary has established a customer identification program pursuant to Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating and doing business in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

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Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to banks and its influence over reserve requirements to which banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

AVAILABLE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also review our filings by accessing the website maintained by the SEC at http://www.sec.gov. The site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we maintain a website at http://www.homebancshares.com. We make available on our website copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to such documents as soon as practicable after we electronically file such materials with or furnish such documents to the SEC.

Item 1A. RISK FACTORS

Our business exposes us to certain risks. Risks and uncertainties that management is not aware of or focused on may also adversely affect our business and operation. The following is a discussion of the most significant risks and uncertainties that may affect our business, financial condition and future results.

Risks Related to Our Industry

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

We and our bank subsidiary are subject to extensive federal and state regulation and supervision. As a registered bank holding company, we are primarily regulated by the Federal Reserve Board. Our bank subsidiary is also primarily regulated by the Federal Reserve Board and the Arkansas State Bank Department.

Banking industry regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not security holders. Complying with such regulations is costly and may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators. Violations of various laws, even if unintentional, may result in significant fines or other penalties, including restrictions on branching or bank acquisitions.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. The act requires the issuance of a substantial number of new regulations by federal regulatory agencies which will affect financial institutions, many of which have yet to be issued or implemented.

As the provisions of the Dodd-Frank Act and the regulations promulgated under the act are implemented, there could be additional new federal or state laws, regulations and policies regarding lending and funding practices and liquidity standards. Additionally, financial institution regulatory agencies have intensified their response to concerns and trends identified in examinations, including through the issuance of formal enforcement actions. Negative developments in the financial services industry or other new legislation or regulations could adversely impact our operations and our financial performance by subjecting us to additional costs, restricting our business operations, including our ability to originate or sell loans, and/or increasing the ability of non-banks to offer competing financial services.

As regulation of the banking industry continues to evolve, we expect the costs of compliance to continue to increase and, thus, to affect our ability to operate profitably. In addition, industry, legislative or regulatory developments may cause us to materially change our existing strategic direction, capital strategies, compensation or operating plans. If these developments negatively impact our ability to implement our business strategies, it may have a material adverse effect on our results of operations and future prospects.

If we exceed $10 billion in assets, we will be subject to increased regulatory requirements, which could materially and adversely affect us.

Based on our historic organic growth rates, we expect that our total assets and our bank subsidiary s total assets could exceed $10 billion during 2016. The Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve s enhanced prudential oversight requirements and annual stress testing requirements. Failure to meet the enhanced prudential standards and stress testing requirements could limit, among other things, our ability to engage in expansionary activities or make dividend payments to our shareholders. In addition, banks with $10 billion or more in total assets are primarily examined by the CFPB with respect to various federal consumer financial protection laws and regulations. Currently, our bank subsidiary is subject to regulations adopted by the CFPB, but the Federal Reserve is primarily responsible for examining our bank subsidiary s compliance with consumer protection laws and those CFPB regulations. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB s examination and regulatory authority might impact our business.

With respect to deposit-taking activities, banks with assets in excess of $10 billion are subject to two changes. First, these institutions are subject to a deposit assessment based on a new scorecard issued by the FDIC. This scorecard considers, among other things, the bank s CAMELS rating, results of asset-related stress testing and funding-related stress, as well our use of core deposits, among other things. Depending on the results of the bank s performance under that scorecard, the total base assessment rate is between 2.5 to 45 basis points. Any increase in our bank subsidiary s deposit insurance assessments may result in an increased expense related to our use of deposits as a funding source. Additionally, banks with over $10 billion in total assets are no longer exempt from the requirements of the Federal Reserve s rules on interchange transaction fees for debit cards. This means that, beginning on July 1 of the year following the time when our total assets reach or exceed $10 billion, our bank subsidiary will be limited to receiving only a reasonable interchange transaction fee for any debit card transactions processed using debit cards issued by our bank subsidiary to our customers. The Federal Reserve has determined that it is unreasonable for a bank with more than $10 billion in total assets to receive more than $0.21 plus 5 basis points of the transaction plus a $0.01 fraud adjustment for an interchange transaction fee for debit card transactions. A reduction in the amount of interchange fees we receive for electronic debit interchange will reduce our revenues. In 2015, we earned $20.4 million in debit card interchange fees.

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In anticipation of becoming subject to the heightened regulatory requirements, we have begun to hire additional compliance personnel and implement structural initiatives to address these requirements. However, compliance with these requirements may necessitate that we hire additional compliance or other personnel, design and implement additional internal controls, or incur other significant expenses, any of which could have a material adverse effect on our business, financial condition or results of operations. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be misinterpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities. To ensure compliance with these heightened requirements when effective, our regulators may require us to fully comply with these requirements or take actions to prepare for compliance even before our or our bank subsidiary s total assets equal or exceed $10 billion at the end of four consecutive quarters. As a result, we may incur compliance-related costs before we might otherwise be required, including if we do not continue to grow at the rate we expect or at all. Our regulators may also consider our preparation for compliance with these regulatory requirements when examining our operations generally or considering any request for regulatory approval we may make, even requests for approvals on unrelated matters.

Difficult market and economic conditions may adversely affect our industry and our business.

The financial crisis and the resulting economic downturn in the latter years of the last decade had a significant adverse impact on the banking industry, and particularly community banks. Dramatic declines in the housing market, with falling home prices and increased delinquencies and foreclosures, negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Reduced availability of commercial credit and sustained higher unemployment negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. As a result of these market conditions and the raising of credit standards, our industry experienced commercial and consumer deficiencies, low customer confidence, market volatility and generally sluggish business activity.

Although general economic conditions nationally and locally in our market areas have improved in recent years, we cannot be certain that the recent positive economic trends will continue. The improvement of certain economic indicators, such as real estate asset values, rents and unemployment, may vary between geographic markets and may continue to lag behind improvement in the overall economy. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly than other economic sectors. If the positive movement in these economic indicators in our market areas subsides or conditions once again worsen, the adverse effects of an economic downturn on us, our customers and the other financial institutions in our market may result in increased foreclosures, delinquencies and customer bankruptcies as well as more restricted access to funds. Any such negative events may have an adverse effect on our business, financial condition, results of operations and stock price.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not maintain stability within the U.S. banking system.

Since 2008, the U.S. Congress, the Federal Reserve, the Treasury, the FDIC, the CFPB, the SEC and others have taken numerous legislative and regulatory actions to stabilize the U.S. banking system and to prevent future financial crises like the one experienced in 2008 and 2009. These measures have included the Emergency Economic Stabilization Act of 2008 (the EESA), which authorized the Treasury to purchase troubled assets and capital securities from banks and their holding companies under the TARP program; significant financial reforms under the Dodd-Frank Act; homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers;

efforts by the Federal Reserve to purchase U.S. Treasury bonds; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

While the banking system in the United States has substantially stabilized, it is unknown whether these legislative and regulatory initiatives will produce broad, long-term stability, particularly if conditions in the real estate markets worsen or if any significant negative economic developments occur as a result of fiscal and political uncertainties in the United States and abroad. Should these or other legislative or regulatory initiatives fail to fully stabilize the financial markets and prevent similar future crises, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all banking organizations. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum Tier 1 risk-based capital requirement (6% of risk-weighted assets) and assigns higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer of 2.5% of common equity tier 1 capital to risk-weighted assets, which is in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and our bank subsidiary on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

While our current capital levels well exceed the revised capital requirements, our capital levels could decrease in the future as a result of factors such as acquisitions, faster than anticipated growth, reduced earnings levels, operating losses and other factors. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in our inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

Additional bank failures or further changes to the FDIC insurance assessment system may increase our FDIC insurance assessments and result in higher noninterest expense.

In July 2010, the Dodd-Frank Act made permanent the $250,000 per depositor coverage limit on federal deposit insurance provided by the FDIC. The FDIC has taken a number of actions since 2008 in order to maintain a strong funding position and restore reserve ratios of the DIF depleted by the increased deposit insurance coverage and the high number of bank failures.

Effective April 1, 2011, the FDIC approved a final rule implementing additional changes to the deposit insurance assessment system, as authorized by the Dodd-Frank Act. The final rule, among other things, changes the assessment base for insured institutions, suspends indefinitely certain requirements of the FDIC to pay dividends from the DIF to prevent the DIF from becoming unnecessarily large and adopts, in place of the dividends, progressively lower assessment rate schedules when the reserve ratio exceeds certain levels. Additionally, the final rule changes the method of calculating assessment rates for large institutions and highly complex institutions. If our bank subsidiary exceeds $10 billion in total assets, we will become subject to these changes to the method of calculating assessment rates.

We are generally unable to control the amount and timetable for payment of premiums that we are required to pay for FDIC insurance. There is no guarantee that our assessment rate will not increase in the future. Additionally, if there continue to be bank or financial institution failures or the recently adopted changes do not have their desired effect of strengthening the DIF reserve ratio, the FDIC may further revise the assessment rates or the risk-based assessment system. Such changes may require us to pay higher FDIC premiums than our current levels, which would increase our noninterest expense.

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Our profitability is vulnerable to interest rate fluctuations and monetary policy.

Most of our assets and liabilities are monetary in nature, and thus subject us to significant risks from changes in interest rates. Consequently, our results of operations can be significantly affected by changes in interest rates and our ability to manage interest rate risk. Changes in market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationship between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income or a decrease in interest rate spread. In addition to affecting our profitability, changes in interest rates can impact the valuation of our assets and liabilities.

As of December 31, 2015, our one-year ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities was 102.3% and our cumulative repricing gap position was 1.1% of total earning assets, resulting in a limited impact on earnings for various interest rate change scenarios. Floating rate loans made up 31.2% of our $6.64 billion total loan portfolio. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. In addition, 53.5% of our loans receivable and 71.2% of our time deposits at December 31, 2015, were scheduled to reprice within 12 months and our other rate sensitive asset and rate sensitive liabilities composition is subject to change. Significant composition changes in our rate sensitive assets or liabilities could result in a more unbalanced position and interest rate changes would have more of an impact on our earnings.

Our results of operations are also affected by the monetary policies of the Federal Reserve Board. Actions by the Federal Reserve Board involving monetary policies could have an adverse effect on our deposit levels, loan demand or business and earnings.

Risks Related to Our Business

Our decisions regarding credit risk could be inaccurate and our allowance for loan losses may be inadequate, which would materially and adversely affect us.

Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our secured loans. We endeavor to maintain an allowance for loan losses that we consider adequate to absorb future losses that may occur in our loan portfolio. As of December 31, 2015, our allowance for loan losses for non-covered loans was approximately $66.6 million, or 1.01% of our total loans receivable not covered by loss share, a decrease of 0.08% from December 31, 2014. In determining the size of the allowance, we analyze our loan portfolio based on our historical loss experience, volume and classification of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions, and other pertinent information.

If our assumptions are incorrect, our current allowance may be insufficient to absorb future loan losses, and increased loan loss reserves may be needed to respond to different economic conditions or adverse developments in our loan portfolio. When there is an economic downturn it is more difficult for us to estimate the losses that we will experience in our loan portfolio. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs could have a negative effect on our operating results.

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Our high concentration of real estate loans exposes us to increased lending risk.

As of December 31, 2015, the primary composition of our total loan portfolio was as follows:

- commercial real estate loans (excludes construction/land development) of $3.04 billion, or 45.8% of total loans;
- construction/land development loans of $944.8 million, or 14.2% of total loans;
- commercial and industrial loans of $850.6 million, or 12.9% of total loans;
- residential real estate loans of $1.62 billion, or 24.4% of total loans;
- consumer loans of $52.3 million, or 0.8% of total loans; and
- agricultural (non-real estate) loans of $67.1 million, or 1.0% of total loans.

Commercial real estate, construction/land development and commercial and industrial loans, which comprised 72.9% of our total loan portfolio as of December 31, 2015, expose us to a greater risk of loss than our residential real estate and consumer loans, which comprised 25.2% of our total loan portfolio as of December 31, 2015. Commercial real estate and land development loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential loans. Consequently, an adverse development with respect to one commercial loan or one credit relationship exposes us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan.

Approximately 87.0% of our loans as of December 31, 2015, are to borrowers in Alabama, Arkansas and Florida, the three states in which we have our primary market areas. An adverse development with respect to the market conditions of these specific market areas could expose us to a greater risk of loss than a portfolio that is spread among a larger geographic base.

Our concentration in commercial real estate loans exposes us to greater risk associated with those types of loans. The repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower s ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan, or in the most extreme cases, we may have to foreclose. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

We have 84.4% of our loans as real estate loans primarily in Arkansas, Florida and South Alabama, and this poses a concentration risk, especially if the Florida area does not continue to improve or once again deteriorates resulting in depressed sales prices and low sales, combined with increased delinquencies and foreclosures on residential and commercial real estate loans.

Depressed local economic and housing markets have led to loan losses and reduced earnings in the past and could lead to additional loan losses and reduced earnings.

During the latter years of the last decade, our Florida markets experienced a dramatic reduction in housing and real estate values, coupled with significantly higher unemployment. These conditions contributed to increased non-performing loans and reduced asset quality during this time period. While market conditions in our Florida markets have improved in recent years leading to resulting improvements in our non-performing loans and asset quality, any similar future economic downturn or deterioration in real estate value could cause us to incur additional losses relating to increased non-performing loans. We do not record interest income on non-accrual loans or other real estate owned, thereby adversely affecting our income, and our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then-fair market value of the collateral, which may result in a loss. These loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. These effects, individually or in the aggregate, could have an adverse effect on our financial condition and results of operations.

Additionally, our success significantly depends upon the growth in population, income levels, deposits and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions deteriorate locally or nationally, our business may be adversely affected. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

If the value of real estate in our Florida markets were to once again deteriorate, a significant portion of our loans in our Florida market that were not acquired from the FDIC could become under-collateralized, which could have a material adverse effect on us.

As of December 31, 2015, non-covered loans in the Florida market totaled $2.21 billion, or 33.6% of our non-covered loans receivable. Of the Florida loans for which we do not have loss-sharing, approximately 87.5% were secured by real estate. In prior years, the difficult local economic conditions have adversely affected the values of our real estate collateral in Florida, and they could do so again if the markets were to once again deteriorate in the future. The real estate collateral in each case provides an alternate source of repayment on our loans in the event of default by the borrower but may deteriorate in value during the time credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Because we have a concentration of exposure to a number of individual borrowers, a significant loss on any of those loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Under applicable law, our bank subsidiary is generally permitted to make loans to one borrowing relationship up to 20% of its Tier 1 capital plus the allowance for loan losses. As of December 31, 2015, the legal lending limit of our bank subsidiary for secured loans was approximately $170.3 million. Currently, our board of directors has established an in-house lending limit of $20.0 million to any one borrowing relationship without obtaining the approval of both our Chairman, John W. Allison, and our director Richard H. Ashley. Currently, we have a total of $1.18 billion committed to the aggregate group of borrowers whose total debt exceeds the established in-house lending limit of $20.0 million.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures.

Our cost of funds may increase as a result of general economic conditions, interest rates and competitive pressures. We have traditionally obtained funds principally through local deposits, and we have a base of lower cost transaction deposits. Generally, we believe local deposits are a more stable source of funds than other borrowings because interest rates paid for local deposits are typically lower than interest rates charged for borrowings from other institutional lenders. In addition, local deposits reflect a mix of transaction and time deposits, whereas brokered deposits typically are less stable time deposits, which may need to be replaced with higher cost funds. Our costs of funds and our profitability and liquidity are likely to be adversely affected if and to the extent we have to rely upon higher cost borrowings from other institutional lenders or brokers to fund loan demand or liquidity needs, and changes in our deposit mix and growth could adversely affect our profitability and the ability to expand our loan portfolio.

The loss of key officers may materially and adversely affect us.

Our success depends significantly on our Chairman, John W. Allison, and our executive officers, especially C. Randall Sims, Brian S. Davis, J. Stephen Tipton and Kevin D. Hester plus Centennial Bank Chief Executive Officer and President, Tracy M. French, and our regional Centennial Bank presidents Robert F. Birch, Russell D. Carter, III and Jim F. Haynes, Jr. Centennial Bank, in particular, relies heavily on its management team s relationships in its local communities to generate business. Because we do not have employment agreements or non-compete agreements with our executive officers and regional bank presidents, these employees are free to resign at any time and accept an employment offer from another company, including a competitor. The loss of services from a member of our current management team may materially and adversely affect our business, financial condition, results of operations and future prospects.

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Our growth and expansion strategy may not be successful and our market value and profitability may suffer.

Growth through the acquisition of banks, including FDIC-assisted transactions, and *de novo* branching represent important components of our business strategy. Any future acquisitions we might make will be accompanied by the risks commonly encountered in acquisitions. These risks include, among other things:

- credit risk associated with the acquired bank s loans and investments;
- difficulty of integrating operations and personnel; and
- potential disruption of our ongoing business.

We expect that competition for suitable acquisition candidates may be significant. We may compete with other banks or financial service companies with similar acquisition strategies, many of which are larger and have greater financial and other resources. We cannot assure you that we will be able to successfully identify and acquire suitable acquisition targets on acceptable terms and conditions.

In the current economic environment, we may continue to have opportunities to acquire the assets and liabilities of failed banks in FDIC-assisted transactions. These acquisitions involve risks similar to acquiring existing banks even though the FDIC might provide assistance to mitigate certain risks such as sharing in exposure to loan losses and providing indemnification against certain liabilities of the failed institution. However, because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for integration of an acquired institution, we may face additional risks in FDIC-assisted transactions. These risks include, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to have some *de novo* branching. *De novo* branching and any acquisition carry with them numerous risks, including the following:

- the inability to obtain all required regulatory approvals;
- significant costs and anticipated operating losses associated with establishing a *de novo* branch or a new bank;
- the inability to secure the services of qualified senior management;
- the local market may not accept the services of a new bank owned and managed by a bank holding company headquartered outside of the market area of the new bank;

- economic downturns in the new market;

- the inability to obtain attractive locations within a new market at a reasonable cost; and

- the additional strain on management resources and internal systems and controls.

We cannot assure that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions (including FDIC-assisted transactions) and *de novo* branching. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and maintain our market value and profitability.

Our loss-sharing agreements with the FDIC limit our ability to enter into certain change of control transactions, including the sale of significant amounts of our common stock by us or our shareholders, without the consent of the FDIC.

The loss-sharing agreements we entered into with the FDIC in connection with our FDIC-assisted acquisitions require the consent of the FDIC in connection with certain change of control transactions, including the sale by the Company or by any individual shareholder, or group of shareholders acting in concert, of shares of our common stock totaling more than 9% of our outstanding common stock. This requirement could restrict or delay our ability to raise additional capital to fund acquisition or growth opportunities or for other purposes, or to pursue a merger or consolidation transaction that management may believe is in the best interest of our shareholders. This could also restrict or delay the ability of our shareholders to sell a substantial amount of our shares. In addition, if such a transaction were to occur without the FDIC s consent, we could lose the benefit of the loss-share coverage provided by these agreements for certain covered assets.

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There may be undiscovered risks or losses associated with our bank acquisitions which would have a negative impact upon our future income.

Our growth strategy includes strategic acquisitions of banks. We have acquired 19 banks since we started our first subsidiary bank in 1999, including a total of 12 banks from 2010 through 2014 and two additional banks in 2015, and we will continue to consider strategic acquisitions, with a primary focus on Arkansas, Florida, South Alabama and other nearby markets. In most cases, our acquisition of a bank includes the acquisition of all or a substantial portion of the target bank s assets and liabilities, including all or a substantial portion of its loan portfolio. There may be instances when we, under our normal operating procedures, may find after the acquisition that there may be additional losses or undisclosed liabilities with respect to the assets and liabilities of the target bank, and, with respect to its loan portfolio, that the ability of a borrower to repay a loan may have become impaired, the quality of the value of the collateral securing a loan may fall below our standards, or the allowance for loan losses may not be adequate. One or more of these factors might cause us to have additional losses or liabilities, additional loan charge-offs, or increases in allowances for loan losses, which would have a negative impact upon our financial condition and results of operations.

Changes in national and local economic conditions could lead to higher loan charge-offs in connection with our acquisitions.

In connection with our acquisitions since 2010, we have acquired a significant portfolio of loans. Although we marked down the loan portfolios we have acquired, there is no assurance that the non-impaired loans we acquired will not become impaired or that the impaired loans will not suffer further deterioration in value resulting in additional charge-offs to the acquired loan portfolio. Fluctuations in national, regional and local economic conditions, including those related to local residential and commercial real estate and construction markets, may increase the level of charge-offs we make to our loan portfolio, and, may consequently, reduce our net income. Such fluctuations may also increase the level of charge-offs on the loan portfolios we have acquired in the acquisitions and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur.

Although in connection with our 2010 FDIC-assisted acquisitions we entered into loss-sharing agreements with the FDIC, which provide that a significant portion of losses related to specified loan portfolios we acquired will be indemnified by the FDIC, we are not protected from all losses resulting from charge-offs with respect to those specified loan portfolios. Additionally, the loss-sharing agreements have limited terms, which began to expire in 2015; therefore, any charge-off of related losses that we experience after the term of the loss-sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

The expiration of our loss-sharing agreements in connection with our 2010 FDIC-assisted acquisitions may result in write-downs to our FDIC indemnification asset to the extent expected loan losses do not occur within the loss share coverage window, which could have a material adverse effect on our financial condition.

In conjunction with our FDIC-assisted transactions, we entered into loss-sharing agreements with the FDIC which cover realized losses on loans, foreclosed real estate and certain other assets. These agreements are recorded as assets on our consolidated balance sheet to the extent of the expected loss share indemnification. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should we choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss share based on the credit adjustments estimated for each loan pool and the loss share percentages.

Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected credit losses, to the extent such reductions to expected credit losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Increases in expected credit losses will require an increase to the allowance for loan losses and a corresponding increase to the loss share assets. As the loss share agreements approach the various expiration dates, there could be unexpected volatility in the indemnification asset as future expected loan losses might become projected to occur outside of the loss share coverage reimbursement window. If the loan losses projected to occur outside the loss share coverage reimbursement period are substantial, the resulting reductions in our FDIC indemnification asset could have a material adverse effect on our financial condition.

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Our acquisitions have caused us to modify our disclosure controls and procedures, which may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported timely.

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC s rules and forms. As a result of our acquisitions, we may implement changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the acquisition, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our SEC reports being recorded, processed, summarized, and reported within required time periods. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Our failure to fully comply with the loss-sharing provisions relating to our FDIC acquisitions could jeopardize the loss-share coverage afforded to certain individual or pools of assets, rendering us financially responsible for the full amount of any losses related to such assets.

In connection with our FDIC acquisitions in 2010, we entered into loss-sharing agreements with the FDIC whereby the FDIC agreed to cover 70% or 80% of the losses on certain single family residential mortgage loans and certain commercial loans (together, covered assets), and 30%, 80% or 95% of the losses on such covered assets in excess of thresholds stated in the loss-sharing agreements. Our management of and application of the terms and conditions of the loss-sharing provisions of the Purchase and Assumption Agreements related to the covered assets is monitored by the FDIC through periodic reports that we must submit to the FDIC and on-site compliance visitations by the FDIC. If we fail to fully comply with its obligations under the loss-sharing provisions of the Purchase and Assumption Agreements relating to the acquisitions, we could lose the benefit of the loss-share coverage as it applies to certain individual or pools of covered assets. Without such loss-share coverage, we would be solely financially responsible for the losses sustained by such individual or pools of assets.

Competition from other financial institutions may adversely affect our profitability.

We face substantial competition in all phases of our operations from a variety of different competitors. We experience strong competition, not only from commercial banks, savings and loan associations and credit unions, but also from mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other financial services providers operating in or near our market areas. We compete with these institutions both in attracting deposits and in making loans.

Many of our competitors are much larger national and regional financial institutions. We may face a competitive disadvantage against them as a result of our smaller size and resources and our lack of geographic diversification. Due to their size, larger competitors can achieve economies of scale and may offer a broader range of products and services or more attractive pricing than us. If we are unable to offer competitive products and services, our business may be negatively affected. Many of our competitors are not subject to the same degree of regulation that we are as an FDIC-insured institution, which gives them greater operating flexibility and reduces their expenses relative to ours. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

We also compete against community banks that have strong local ties. These smaller institutions are likely to cater to the same small and mid-sized businesses that we target and to use a relationship-based approach similar to ours. In addition, our competitors may seek to gain market share by pricing below the current market rates for loans and paying higher rates for deposits. The banking business in our primary market areas is very competitive, and the level of competition facing us may increase further, which may limit our asset growth and financial results.

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We may incur environmental liabilities with respect to properties to which we take title.

A significant portion of our loan portfolio is secured by real property. In the course of our business, we may own or foreclose and take title to real estate and could become subject to environmental liabilities with respect to these properties. We may become responsible to a governmental agency or third parties for property damage, personal injury, investigation and clean-up costs incurred by those parties in connection with environmental contamination, or may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at a property. The costs associated with environmental investigation or remediation activities could be substantial. If we were to become subject to significant environmental liabilities, it could have a material adverse effect on our results of operations and financial condition.

We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients, which may adversely affect our results of operations and future prospects.

A failure in or breach of our operational or security systems, or those of our third party service providers, including as a result of cyber-attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, our operations rely heavily on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber-attacks, electronic fraudulent activity or attempted theft of financial assets. We cannot assure you that any such failures, interruption or security breaches will not occur, or if they do occur that they will be adequately addressed. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. We may be required to expend significant additional resources in the future to modify and enhance our protective measures.

Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance.

Our recent results do not indicate our future results and may not provide guidance to assess the risk of an investment in our common stock.

We are unlikely to sustain our historical rate of growth, and may not even be able to expand our business at all. Further, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we are not able to successfully grow our business, our financial condition and results of operations could be adversely affected.

We may not be able to raise the additional capital we need to grow and, as a result, our ability to expand our operations could be materially impaired.

Federal and state regulatory authorities require us and our bank subsidiary to maintain adequate levels of capital to support our operations. While we believe that our existing capital (which well exceeds the federal and state capital requirements) will be sufficient to support our current operations, anticipated expansion and potential acquisitions, factors such as faster than anticipated growth, reduced earnings levels, operating losses, changes in economic conditions, revisions in regulatory requirements, or additional acquisition opportunities may lead us to seek additional capital.

Our ability to raise additional capital, if needed, will depend on our financial performance and on conditions in the capital markets at that time, which are outside our control. If we need additional capital but cannot raise it on terms acceptable to us, our ability to expand our operations could be materially impaired.

Our directors and executive officers own a significant portion of our common stock and can exert significant influence over our business and corporate affairs.

Our directors and executive officers, as a group, beneficially owned 14.9% of our common stock as of December 31, 2015. Consequently, if they vote their shares in concert, they can significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors. The interests of our officers and directors may conflict with the interests of other holders of our common stock, and they may take actions affecting the Company with which you disagree.

Hurricanes or other adverse weather events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on us.

Like other coastal areas, our markets in Alabama and Florida are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. We cannot predict whether or to what extent damage that may be caused by future hurricanes or other weather events will affect our operations or the economies in our market areas, but such weather events could result in a decline in loan originations, a decline in the value or destruction of properties securing our loans and an increase in the delinquencies, foreclosures and loan losses. Our business or results of operations may be adversely affected by these and other negative effects of hurricanes or other significant weather events.

Risks Related to Owning Our Stock

The holders of our subordinated debentures have rights that are senior to those of our shareholders. If we defer payments of interest on our outstanding subordinated debentures or if certain defaults relating to those debentures occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of December 31, 2015, we have $60.8 million of subordinated debentures issued in connection with trust preferred securities. Payments of the principal and interest on the trust preferred securities are unconditionally guaranteed by us. The subordinated debentures are senior to our shares of common stock. As a result, we must make payments on the subordinated debentures (and the related trust preferred securities) before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of our common stock. We have the right to defer distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid to holders of our capital stock. If we elect to defer or if we default with respect to our obligations to make payments on these subordinated debentures, this would likely have a material adverse effect on the market value of our common stock. Moreover, without notice to or consent from the holders of our common stock, we may enter into other financing agreements that limit our ability to purchase or to pay dividends or distributions on our capital stock, including our common stock.

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We may be unable to, or choose not to, pay dividends on our common stock.

Although we have paid a quarterly dividend on our common stock since the second quarter of 2003 and expect to continue this practice, we cannot assure you of our ability to continue. Our ability to pay dividends depends on the following factors, among others:

- We may not have sufficient earnings since our primary source of income, the payment of dividends to us by our bank subsidiary, is subject to federal and state laws that limit the ability of that bank to pay dividends.

- Federal Reserve Board policy requires bank holding companies to pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition.

- Before dividends may be paid on our common stock in any year, payments must be made on our subordinated debentures.

- Our board of directors may determine that, even though funds are available for dividend payments, retaining the funds for internal uses, such as expansion of our operations, is a better strategy.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event our bank subsidiary becomes unable, due to regulatory restrictions, capital planning needs or otherwise, to pay dividends to us, we may not be able to service our debt, pay our other obligations or pay dividends on our common stock. Accordingly, our inability to receive dividends from our bank subsidiary could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are listed for trading on The NASDAQ Global Select Market, the average daily trading volume in the common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

There are currently no unresolved Commission staff comments received by the Company more than 180 days prior to the end of the fiscal year covered by this annual report.

Item 2. PROPERTIES

The Company s main office is located in a Company-owned 33,000 square foot building located at 719 Harkrider Street in downtown Conway, Arkansas. As of December 31, 2015, our bank subsidiary owned or leased a total of 79 branches located in Arkansas, 61 branches Florida and six branches in South Alabama. The Company also owns or leases other buildings that provide space for operations, mortgage lending and other general purposes. We believe that our banking and other offices are in good condition and are suitable to our needs.

Item 3. LEGAL PROCEEDINGS

While we and our bank subsidiary and other affiliates are from time to time parties to various legal proceedings arising in the ordinary course of their business, management believes, after consultation with legal counsel, that there are no proceedings threatened or pending against us or our bank subsidiary or other affiliates that will, individually or in the aggregate, have a material adverse effect on our business or consolidated financial condition.

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Item 4. MINE SAFETY DISCLOSURE
Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol HOMB . The following table sets forth, for all the periods indicated, cash dividends declared, and the high and low closing sale prices for our common stock.

	Price per Common Share		Quarterly Dividends Per Common Share
	High	Low	
2015			
1st Quarter	$ 34.65	$ 28.66	$ 0.125
2nd Quarter	37.35	32.51	0.125
3rd Quarter	41.19	36.00	0.150
4th Quarter	46.52	39.59	0.150
2014			
1st Quarter	$ 36.42	$ 29.29	$ 0.075
2nd Quarter	35.57	28.70	0.075
3rd Quarter	33.78	29.20	0.100
4th Quarter	32.79	28.11	0.100

As of February 19, 2016, there were approximately 1,097 stockholders of record of the Company s common stock.

Our policy is to declare regular quarterly dividends based upon our earnings, financial position, capital improvements and such other factors deemed relevant by the Board of Directors. The dividend policy is subject to change, however, and the payment of dividends is not necessarily dependent upon the availability of earnings and future financial condition.

There were no sales of our unregistered securities during the period covered by this report.

We currently maintain a compensation plan, the Home BancShares, Inc. Amended and Restated 2006 Stock Option and Performance Incentive Plan, which provides for the issuance of stock-based compensation to directors, officers and other employees. This plan has been approved by the stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plan as of December 31, 2015:

Number of securities

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by the stockholders	1,396,784	$ 25.42	511,044
Equity compensation plans not approved by the stockholders			

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Performance Graph

Below is a graph which summarizes the cumulative return earned by the Company s stockholders since December 31, 2010, compared with the cumulative total return on the Russell 2000 Index and SNL Bank and Thrift Index. This presentation assumes that the value of the investment in the Company s common stock and each index was $100.00 on December 31, 2010 and that subsequent cash dividends were reinvested.

			Period Ending			
Index	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**
Home BancShares, Inc.	100.00	118.99	154.59	354.03	308.29	394.15
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
SNL Bank and Thrift	100.00	77.76	104.42	142.97	159.60	162.83

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Item 6. SELECTED FINANCIAL DATA.

Summary Consolidated Financial Data

	As of or for the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars and shares in thousands, except per share data)				
Income statement data:					
Total interest income	$ 377,436	$ 335,888	$ 217,126	$ 177,135	$ 171,806
Total interest expense	21,724	18,870	14,531	21,535	30,551
Net interest income	355,712	317,018	202,595	155,600	141,255
Provision for loan losses	25,164	22,664	5,180	2,750	3,500
Net interest income after provision for loan losses	330,548	294,354	197,415	152,850	137,755
Non-interest income	65,498	44,762	40,365	47,969	41,309
Non-interest expense	177,555	161,943	133,307	102,368	94,722
Income before income taxes	218,491	177,173	104,473	98,451	84,342
Provision for income taxes	80,292	64,110	37,953	35,429	29,601
Net income	138,199	113,063	66,520	63,022	54,741
Preferred stock dividends and accretion of discount on preferred stock					1,828
Net income available to common stockholders	$ 138,199	$ 113,063	$ 66,520	$ 63,022	$ 52,913
Per share data:					
Basic earnings per common share	$ 2.02	$ 1.71	$ 1.15	$ 1.12	$ 0.93
Diluted earnings per common share	2.02	1.70	1.14	1.11	0.92
Diluted earnings per common share excluding intangible amortization(1)	2.05	1.75	1.18	1.14	0.95
Book value per common share	17.11	15.03	12.92	9.17	8.38
Tangible book value per common share(2)(5)	11.41	9.90	7.94	7.43	7.18
Dividends - common	0.550	0.350	0.290	0.290	0.134
Average common shares outstanding	68,308	65,951	57,908	56,274	56,832
Average diluted shares outstanding	68,565	66,331	58,252	56,630	57,224
Performance ratios:					
Return on average assets	1.68%	1.63%	1.43%	1.58%	1.50%
Return on average assets excluding intangible amortization(6)	1.79	1.75	1.52	1.66	1.57
Return on average common equity.	12.77	12.34	11.27	12.75	11.77
Return on average tangible common equity excluding intangible amortization(2)(7)	19.37	19.80	15.26	15.87	14.39
Net interest margin(10)	4.98	5.37	5.19	4.70	4.69

Efficiency ratio(3)	40.44	42.67	52.44	47.88	49.13
Asset quality:					
Non-performing non-covered assets to total non-covered assets	0.85%	0.79%	1.07%	1.30%	1.53%
Non-performing non-covered loans to total non-covered loans	0.92	0.82	0.91	1.17	1.56
Allowance for loan losses for non-covered loans to non-performing non-covered loans	110.66	132.63	101.95	165.62	189.64
Allowance for loans losses for non-covered loans to total non-covered loans(9)	1.01	1.09	0.93	1.94	2.96
Net charge-offs on loans not covered by loss share to average non-covered loans	0.20	0.19	0.39	0.40	0.26

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Summary Consolidated Financial Data   Continued

	As of or for the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars and shares in thousands, except per share data)				
Balance sheet data (period end):					
Total assets	$ 9,289,122	$ 7,403,272	$ 6,811,861	$ 4,242,130	$ 3,604,117
Investment securities available-for-sale	1,206,580	1,067,287	1,175,484	726,223	671,221
Investment securities held-to-maturity	309,042	356,790	114,621		
Loans receivable not covered by loss share	6,579,401	4,817,314	4,194,437	2,331,199	1,760,086
Loans receivable covered by FDIC loss share	62,170	240,188	282,516	384,884	481,739
Allowance for loan losses	69,224	55,011	43,815	50,632	52,129
Intangible assets	399,426	346,348	324,034	97,742	68,283
Non-interest-bearing deposits	1,456,624	1,203,306	991,161	666,414	464,581
Total deposits	6,438,509	5,423,971	5,393,046	3,483,452	2,858,031
Subordinated debentures (trust preferred securities)	60,826	60,826	60,826	28,867	44,331
Stockholders equity	1,199,757	1,015,292	840,955	515,473	474,066
Capital ratios:					
Common equity to assets	12.92%	13.71%	12.35%	12.15%	13.15%
Tangible common equity to tangible assets[(2)(8)]	9.00	9.48	7.97	10.08	11.48
Common equity Tier 1 capital	10.50				
Tier 1 leverage ratio[(4)]	9.91	10.31	9.38	10.95	12.48
Tier 1 risk-based capital ratio	11.26	12.55	10.88	13.94	17.04
Total risk-based capital ratio	12.16	13.51	11.75	15.20	18.30
Dividend payout - common	27.19	20.49	25.51	25.89	13.90

(1) Diluted earnings per common share excluding intangible amortization reflect diluted earnings per share plus per share intangible amortization expense, net of the corresponding tax effect. See   Management   s Discussion and Analysis of Financial Condition and Results of Operations   Table 33,   for the non-GAAP tabular reconciliation.

(2) Tangible calculations eliminate the effect of goodwill and acquisition-related intangible assets and the corresponding amortization expense on a tax-effected basis.

(3) The efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

(4) Leverage ratio is Tier 1 capital to quarterly average total assets less intangible assets and gross unrealized gains/losses on available-for-sale investment securities.

(5) See   Management   s Discussion and Analysis of Financial Condition and Results of Operations   Table 34,   for the non-GAAP tabular reconciliation.

(6) See   Management   s Discussion and Analysis of Financial Condition and Results of Operations   Table 35,   for the non-GAAP tabular reconciliation.

(7)

See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 36, for the non-GAAP tabular reconciliation.

(8) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 37, for the non-GAAP tabular reconciliation.

(9) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 32, for additional information on non-GAAP tabular disclosure.

(10) Fully taxable equivalent (assuming an income tax rate of 39.225%).

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents our consolidated financial condition and results of operations for the years ended December 31, 2015, 2014 and 2013. This discussion should be read together with the Summary Consolidated Financial Data, our consolidated financial statements and the notes thereto, and other financial data included in this document. In addition to the historical information provided below, we have made certain estimates and forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these estimates and in the forward-looking statements as a result of certain factors, including those discussed in the section of this document captioned Risk Factors, and elsewhere in this document. Unless the context requires otherwise, the terms Company , us , we , and our refer to Home BancShares, Inc. on a consolidated basis.

General

We are a bank holding company headquartered in Conway, Arkansas, offering a broad array of financial services through our wholly owned bank subsidiary, Centennial Bank. As of December 31, 2015, we had, on a consolidated basis, total assets of $9.29 billion, loans receivable, net of $6.57 billion, total deposits of $6.44 billion, and stockholders equity of $1.20 billion.

We generate most of our revenue from interest on loans and investments, service charges, and mortgage banking income. Deposits and FHLB borrowed funds are our primary source of funding. Our largest expenses are interest on our funding sources, salaries and related employee benefits and occupancy and equipment. We measure our performance by calculating our return on average common equity, return on average assets, and net interest margin. We also measure our performance by our efficiency ratio, which is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income.

Table 1: Key Financial Measures

	As of or for the Years Ended December 31,		
	2015	**2014**	**2013**
	(Dollars in thousands, except per share data)		
Total assets	$ 9,289,122	$ 7,403,272	$ 6,811,861
Loans receivable not covered by loss share	6,579,401	4,817,314	4,194,437
Loans receivable covered by FDIC loss share	62,170	240,188	282,516
Allowance for loan losses	69,224	55,011	43,815
FDIC claims receivable	3,192	14,007	19,124
Total deposits	6,438,509	5,423,971	5,393,046
Total stockholders equity	1,199,757	1,015,292	840,955
Net income	138,199	113,063	66,520
Basic earnings per share	2.02	1.71	1.15
Diluted earnings per share	2.02	1.70	1.14
Diluted earnings per share excluding intangible amortization (1)	2.05	1.75	1.18
Net interest margin FTE	4.98%	5.37%	5.19%
Efficiency ratio	40.44	42.67	52.44
Return on average assets	1.68	1.63	1.43

Return on average common equity	12.77	12.34	11.27

(1) See Table 33 Diluted Earnings Per Common Share Excluding Intangible Amortization for a reconciliation to GAAP for diluted earnings per share excluding intangible amortization.

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Credit Improvement in Purchased Credit Impaired Loan Pools

Impairment testing on the estimated cash flows of the purchased credit impaired loan pools is performed each quarter. Because the economy has improved since the impaired loans were acquired, quite often the impairment test revealed there was a projected credit improvement in certain loan pools. As a result of these improvements, we are recognizing additional adjustments to yield over the weighted average life of the loans. When there are improvements in credit quality for covered loans, it decreases the basis in the related indemnification asset and increases our FDIC true-up liability. These positive events are reducing the indemnification asset and increasing our FDIC true-up liability. The indemnification asset reduction is being amortized over the shorter of the weighted average life of the loans or shared-loss agreements. This amortization is being shown as a reduction to FDIC indemnification non-interest income. The true-up liability is being expensed as other non-interest expense.

Tables 2 and 3 summarize the recognition of these positive events and the financial impact to the years ended December 31, 2015, 2014 and 2013:

Table 2: Overall Estimated Impact to Financial Statements Initially Reported

	Additional Adjustment to Yield	Reduction of Indemnification Asset (In thousands)	Increase of FDIC True-up Liability
Periods Tested:			
Prior to 2014	$ 34,649	$ 24,718	$ 3,490
March 31, 2014	11,432	8,346	1,143
June 30, 2014	23,428	17,330	1,128
September 30, 2014(1)	13,769	8,141	1,003
December 31, 2014			
March 31, 2015			
June 30, 2015			
September 30, 2015	28,522		
December 31, 2015			
Total	$ 111,800	$ 58,535	$ 6,764

(1) Includes credit improvement in non-covered purchased credit impaired loans of $4.7 million.

Table 3: Financial Impact for the Years Ended December 31, 2015, 2014 and 2013

	Yield Accretion Income	Amortization of Indemnification Asset (In thousands)	FDIC True-up Expense

Years Ended:			
December 31, 2014	$ 28,128	$ (26,523)	$ (1,403)
December 31, 2015	23,851	(9,794)	(1,979)
Additional income/expense	$ (4,277)	$ 16,729	$ (576)
Years Ended:			
December 31, 2013	$ 13,312	$ (11,764)	$ (937)
December 31, 2014	28,128	(26,523)	(1,403)
Additional income/expense	$ 14,816	$ (14,759)	$ (466)

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2015 Overview

Our net income increased 22.2% to $138.2 million for the year ended December 31, 2015, from $113.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings increased 18.8% to $2.02 for the year ended December 31, 2015, as compared to $1.70 for the same period in 2014. Excluding the $1.6 million of one-time gain on acquisition offset by $4.8 million of merger expenses associated with the acquisitions of Doral Bank s Florida Panhandle operations (Doral Florida) and FBBI, net income was $140.1 million and diluted earnings per share for the year ended 2015 was $2.04 per share. Excluding the $4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was $141.1 million and diluted earnings per share for the year ended 2015 was $2.06 per share. Excluding the $6.4 million of 2014 merger expenses associated with the acquisitions of Florida Traditions Bank (Traditions) and Broward Financial Holdings, Inc. (Broward), diluted earnings per share for the year ended 2014 was $1.76 per share. Excluding merger expenses and gain on acquisition, this represents an increase of $0.28 per share or 15.9% for the year ended 2015 when compared to the previous year. Excluding merger expenses and gain on acquisition, net income for the years ended 2015 and 2014 would have been $140.1 million and $117.0 million, respectively, for an increase of $23.1 million or 19.8%. The $23.1 million increase in net income excluding merger expenses and gain on acquisition is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in the costs associated with the asset growth and the increase in provision for loan losses due to organic loan growth during 2015 when compared to the same period in 2014.

Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of $998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, we established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, we will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the years ended December 31, 2015 and 2014, we recognized $47.6 million and $60.2 million, respectively in total net accretion for loans and deposits. For additional information on non-GAAP tabular disclosure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Table 31 . Consequently, with a growth of average loan balance of $1.12 billion, yields on total loans and net interest margin for the year ended December 31, 2015 is reduced when compared to the year ended December 31, 2014.

Our net interest margin, on a fully taxable equivalent basis, was 4.98% for the year ended December 31, 2015, compared to 5.37% for the same period in 2014. The non-GAAP margin excluding accretion income was, however, relatively flat at 4.23% and 4.20% for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, the effective yield on non-covered loans was 5.67% and 6.01% and covered loans was 18.83% and 17.29%, respectively.

Our return on average assets was 1.68% for the year ended December 31, 2015, compared to 1.63% for the same period in 2014. Our return on average common equity was 12.77% for the year ended December 31, 2015, compared to 12.34% for the same period in 2014. Excluding merger expenses and gain on acquisition, our return on average assets was 1.71% for the year ended December 31, 2015, compared to 1.68% for the same period in 2014. Excluding merger expenses and gain on acquisition, our return on average common equity was 12.94% for the year ended December 31, 2015, compared to 12.77% for the same period in 2014. We have been making notable progress in improving the performance of our legacy and acquired franchises. As a result, excluding merger expenses and acquisition gain, there was a slight improvement in our return on average assets and return on average common equity from 2014 to 2015.

Our efficiency ratio was 40.44% for the year ended December 31, 2015, compared to 42.67% for the same period in 2014. Our core efficiency ratio for the year ended December 31, 2015 was 39.48%, which is improved from the 41.23% for the year ended December 31, 2014. The improvement in the core efficiency ratio is primarily associated with additional net interest income resulting from our organic loan growth and acquisitions plus the realized cost savings from these acquisitions combined with the reduced costs from our recent branch closures. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Our total assets increased $1.89 billion, an increase of 25.5%, to $9.29 billion as of December 31, 2015, from the $7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased $1.76 billion, an increase of 36.6%, to $6.58 billion as of December 31, 2015, from $4.82 billion as of December 31, 2014. This increase is primarily associated with the first quarter of 2015 acquisition of $37.9 million of Doral Florida non-covered loans, net of the $4.3 million discount, the 2015 migration of $145.2 million net covered loans to non-covered status, the second quarter of 2015 acquisition of $289.1 million in national commercial real estate loans, the fourth quarter of 2015 acquisition of $422.4 million of FBBI non-covered loans, net of the $14.1 million discount, plus $881.6 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by $178.0 million, a reduction of 74.1%, to $62.2 million as of December 31, 2015, from $240.2 million as of December 31, 2014. This decrease is primarily associated with the migration of a total of $145.2 million net covered loans to non-covered status during 2015 as a result of the expiration of our five-year loss-share agreements plus normal pay-downs and payoffs. Stockholders equity increased $184.5 million, an increase of 18.2%, to $1.20 billion as of December 31, 2015, compared to $1.02 billion as of December 31, 2014. The increase in stockholders equity is primarily associated with the $100.6 million increase in retained earnings plus $83.8 million of common stock issued to the FBBI shareholders offset by the $2.8 million of comprehensive losses.

As of December 31, 2015, our non-performing non-covered loans increased to $60.2 million, or 0.92%, of total non-covered loans from $39.6 million, or 0.82%, of total non-covered loans as of December 31, 2014. Our acquisition of FBBI during the fourth quarter of 2015 added $13.6 million to non-performing loans as of December 31, 2015. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans decreased to 110.66% as of December 31, 2015, compared to 132.63% as of December 31, 2014. Non-performing non-covered loans in Arkansas were $28.3 million at December 31, 2015 compared to $24.5 million as of December 31, 2014. Non-performing non-covered loans in Florida were $31.8 million at December 31, 2015 compared to $14.8 million as of December 31, 2014. Non-performing non-covered loans in Alabama were $132,000 at December 31, 2015 compared to $302,000 as of December 31, 2014.

As of December 31, 2015, our non-performing non-covered assets increased to $78.8 million, or 0.85%, of total non-covered assets from $56.5 million, or 0.79%, of total non-covered assets as of December 31, 2014. Our acquisition of FBBI during the fourth quarter of 2015 added $13.6 million to non-performing assets as of December 31, 2015. Non-performing non-covered assets in Arkansas were $40.3 million at December 31, 2015 compared to $39.2 million as of December 31, 2014. Non-performing non-covered assets in Florida were $37.5 million at December 31, 2015 compared to $17.0 million as of December 31, 2014. Non-performing non-covered assets in Alabama were $892,000 at December 31, 2015 compared to $317,000 as of December 31, 2014.

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2014 Overview

Our net income increased 70.0% to $113.1 million for the year ended December 31, 2014, from $66.5 million for the same period in 2013. On a diluted earnings per share basis, our earnings increased 49.1% to $1.70 for the year ended December 31, 2014, as compared to $1.14 for the same period in 2013. Excluding the $6.4 million of 2014 merger expenses associated with the acquisitions of Traditions and Broward, diluted earnings per share for the year ended 2014 was $1.76 per share. Excluding the $18.4 million of 2013 merger expenses associated with the acquisition of Liberty Bancshares, Inc. (Liberty), diluted earnings per share for the year ended 2013 was $1.33 per share. Excluding merger expenses, this represents an increase of $0.43 per share or 32.3% for the year ended 2014 when compared to the previous year. Excluding merger expenses, net income for the years ended 2014 and 2013 would have been $117.0 million and $77.7 million, respectively, for an increase of $39.3 million or 50.6%. The $39.3 million increase in net income excluding the non-fundamental items is primarily associated with a full year of additional net income from our 2013 acquisition of Liberty plus 167 days of net income from our 2014 acquisition of Traditions and 69 days from our 2014 acquisition of Broward.

Our return on average assets was 1.63% for the year ended December 31, 2014, compared to 1.43% for the same period in 2013. Our return on average common equity was 12.34% for the year ended December 31, 2014, compared to 11.27% for the same period in 2013. Excluding merger expenses, our return on average assets was 1.68% for the year ended December 31, 2014, compared to 1.67% for the same period in 2013. Excluding merger expenses, our return on average common equity was 12.77% for the year ended December 31, 2014, compared to 13.17% for the same period in 2013. Liberty, Traditions and Broward historically performed below our profitability ratios. We have been making notable progress in improving the performance of these franchises. As a result, there were relatively small changes in our profitably ratios from 2013 to 2014.

Our net interest margin, on a fully taxable equivalent basis, was 5.37% for the year ended December 31, 2014, compared to 5.19% for the same period in 2013. The numerous purchased credit impaired loan pools which have been determined to have material projected credit improvement as a result of the quarterly impairment testing and the acquisitions of Liberty, Traditions and Broward have significantly changed the mix and metrics on the net interest margin since December 31, 2012. Although there have been many changes since 2012, we continue to remain focused on expanding its net interest margin through opportunities such as improved pricing on interest-bearing deposits. For the years ended December 31, 2014 and 2013, the effective yield on non-covered loans was 6.01% and 6.01% and covered loans was 17.29% and 11.61%, respectively.

Our efficiency ratio was 42.67% for the year ended December 31, 2014, compared to 52.44% for the same period in 2013. Our core efficiency ratio at 41.23% and 45.49% for the years ended December 31, 2014 and 2013, respectively, demonstrates our consistently tight expense controls. The improvement in the core efficiency ratio is primarily associated with additional net interest income and other non-interest income resulting from our 2013 acquisition of Liberty and to a lesser extent the 2014 acquisitions, offset by a modest increase in costs associated with the asset growth from our acquisitions. Core efficiency ratio is calculated by dividing non-interest expense less amortization of core deposit intangibles by the sum of net interest income on a tax equivalent basis and non-interest income excluding non-fundamental items such as merger expenses and/or gains and losses.

Our total assets increased $591.4 million, an increase of 8.7%, to $7.40 billion as of December 31, 2014, from the $6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share increased $622.9 million, an increase of 14.9%, to $4.82 billion as of December 31, 2014, from $4.19 billion as of December 31, 2013. This increase is primarily associated with the acquisitions of $241.6 million from Traditions non-covered loans and $121.1 million from Broward non-covered loans plus $260.1 million of loan growth since December 31, 2013. Our loan portfolio covered by loss share decreased by $42.3 million, a reduction of 15.0%, to $240.2 million as of

December 31, 2014, from $282.5 million as of December 31, 2013. The decrease in the covered loan portfolio is the result of pay downs and payoffs since no covered loans were acquired during 2014. Stockholders equity increased $174.3 million, an increase of 20.7%, to $1.02 billion as of December 31, 2014, compared to $841.0 million as of December 31, 2013. The increase in stockholders equity is primarily associated with the $39.5 million of common stock issued to the Traditions shareholders and $30.2 million of common stock issued to the Broward shareholders combined with the $124.2 million of comprehensive income less the $23.2 million of dividends paid for 2014.

As of December 31, 2014, our non-performing non-covered loans increased to $39.6 million, or 0.82%, of total non-covered loans from $38.3 million, or 0.91%, of total non-covered loans as of December 31, 2013. The allowance for loan losses for non-covered loans as a percent of non-performing non-covered loans increased to 132.63% as of December 31, 2014, compared to 101.95% as of December 31, 2013. Non-performing non-covered loans in Arkansas were $24.5 million at December 31, 2014 compared to $17.9 million as of December 31, 2013. Non-performing non-covered loans in Florida were $14.8 million at December 31, 2014 compared to $20.3 million as of December 31, 2013. Non-performing non-covered loans in Alabama were $302,000 at December 31, 2014 compared to $7,000 as of December 31, 2013.

As of December 31, 2014, our non-performing non-covered assets improved to $56.5 million, or 0.79%, of total non-covered assets from $68.4 million, or 1.07%, of total non-covered assets as of December 31, 2013. Non-performing non-covered assets in Arkansas were $39.2 million at December 31, 2014 compared to $43.5 million as of December 31, 2013. Non-performing non-covered assets in Florida were $17.0 million at December 31, 2014 compared to $24.9 million as of December 31, 2013. Non-performing non-covered assets in Alabama were $317,000 at December 31, 2014 compared to $7,000 as of December 31, 2013.

Critical Accounting Policies

Overview. We prepare our consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions. Our accounting policies are described in detail in the notes to our consolidated financial statements included as part of this document.

We consider a policy critical if (i) the accounting estimate requires assumptions about matters that are highly uncertain at the time of the accounting estimate; and (ii) different estimates that could reasonably have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial statements. Using these criteria, we believe that the accounting policies most critical to us are those associated with our lending practices, including the accounting for the allowance for loan losses, foreclosed assets, investments, intangible assets, income taxes and stock options.

Investments   Available-for-sale. Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders   equity and other comprehensive income (loss), net of taxes. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale.

Investments   Held-to-Maturity. Securities held-to-maturity, which include any security for which we have the positive intent and ability to hold until maturity, are reported at historical cost adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity.

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses. Except for loans acquired during our acquisitions, substantially all of our loans receivable not covered by loss share are reported at their outstanding principal balance adjusted for any charge-offs, as it is management   s intent to hold them for the foreseeable future or until maturity or payoff, except for mortgage loans held for sale. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management s judgment, will be adequate to absorb probable credit losses on identifiable loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions for loan losses are based on management s analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

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The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Bank s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We apply this policy even if delays or shortfalls in payment are expected to be insignificant. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management s opinion the collection of interest is doubtful, or generally when loans are 90 days or more past due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loans are placed on non-accrual status when management believes that the borrower s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, although the majority of payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status when principal and interest payments are less than 90 days past due, the customer has made required payments for at least six months, and we reasonably expect to collect all principal and interest.

Acquisition Accounting, Acquired Loans and Related Indemnification Asset. We account for its acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. All loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*. For covered acquired loans fair value is exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the purchased credit impaired loans acquired, we continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of its pools of loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool s remaining life.

Because the FDIC will reimburse us for certain acquired loans should we experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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For our FDIC-assisted transactions, shared-loss agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by FASB ASC Topic 310, *Receivables*, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income as a reduction of the provision for loan losses. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted-average remaining life of the loans) decrease the basis of the shared-loss agreements, with such decrease being amortized into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss, the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded until cash is received from the FDIC.

Foreclosed Assets Held for Sale. Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Intangible Assets. Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. We perform an annual impairment test of goodwill and core deposit intangibles as required by FASB ASC 350, *Intangibles - Goodwill and Other,* in the fourth quarter.

Income Taxes. We account for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. We determine deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Both we and our subsidiary file consolidated tax returns. Our subsidiary provides for income taxes on a separate return basis, and remits to us amounts determined to be currently payable.

Stock Options. In accordance with FASB ASC 718, *Compensation - Stock Compensation,* and FASB ASC 505-50, *Equity-Based Payments to Non-Employees*, the fair value of each option award is estimated on the date of grant. We recognize compensation expense for the grant-date fair value of the option award over the vesting period of the award.

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Acquisitions

Acquisition of Florida Business BancGroup, Inc.

On October 1, 2015, we completed our acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities). We paid a purchase price to the FBBI shareholders of $104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 2,079,854 shares of our common stock valued at approximately $83.8 million as of October 1, 2015, plus approximately $20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, $2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

FBBI formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Including the effects of any purchase accounting adjustments, as of October 1, 2015, FBBI had approximately $564.5 million in total assets, $408.3 million in loans after $14.1 million of loan discounts, and $472.0 million in deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of FBBI.

Acquisition of Pool of National Commercial Real Estate Loans

On April 1, 2015, our wholly-owned bank subsidiary, Centennial acquired a pool of national commercial real estate loans from AM PR LLC, an affiliate of J.C. Flowers & Co., totaling approximately $289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from the FDIC, as receiver for the failed Doral Bank. This pool of loans is now housed in a division of Centennial known as the Centennial Commercial Finance Group (Centennial CFG). The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, we opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG is building out a national lending platform focusing on commercial real estate plus commercial and industrial loans. As of December 31, 2015, Centennial CFG had $715.7 million in total loans net of discount. Centennial CFG currently has plans to build this loan portfolio to $1.2 billion to $1.3 billion by the end of 2016. During 2016, we have plans to open a deposit-only branch location in New York City.

Acquisition of Doral Bank s Florida Panhandle operations

On February 27, 2015, our bank subsidiary, Centennial, acquired all the deposits and substantially all the assets of Doral Florida through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. Including the effects of the purchase accounting adjustments, the acquisition provided us with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets. We recorded a bargain purchase gain of $1.6 million, in connection with the Doral Florida acquisition.

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, we closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Doral Florida.

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Acquisition of Broward Financial Holdings, Inc.

On October 23, 2014, we completed our acquisition of all of the issued and outstanding shares of common stock of Broward Financial Holdings, Inc., parent company of Broward Bank, and merged Broward Bank into Centennial Bank. Under the terms of the Broward Agreement, the shareholders of Broward received approximately $30.2 million of our common stock valued as of the closing date, plus $3.3 million in cash, in exchange for all outstanding shares of Broward common stock. We have also agreed to pay the Broward shareholders at an undetermined date up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial Bank from certain current Broward Bank loans. At December 31, 2015, we have recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and we paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, we paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Broward.

Acquisition of Florida Traditions Bank

On July 17, 2014, we completed the acquisition of all of the issued and outstanding shares of common stock of Traditions and merged Traditions into Centennial Bank. Under the terms of the Traditions Agreement, the shareholders of Traditions received approximately $39.5 million of our common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

The transaction was accretive to our book value per common share and tangible book value per common share.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Traditions.

Acquisition of Liberty Bancshares, Inc.

On October 24, 2013, we completed the acquisition of all of the issued and outstanding shares of common stock of Liberty, parent company of Liberty Bank, and merged Liberty Bank into Centennial Bank. Under the terms of Liberty Agreement, the shareholders of Liberty received approximately $290.1 million of our common stock valued at the time of the closing, plus approximately $30.0 million in cash, in exchange for all outstanding shares of Liberty common stock. We also repurchased all of Liberty s SBLF preferred stock held by the U.S. Treasury shortly after the closing. The merger significantly increased our deposit market share in Arkansas making us the second largest bank holding company headquartered in Arkansas.

Prior to the acquisition, Liberty operated 46 banking offices located in Northeast Arkansas, Northwest Arkansas and Western Arkansas. Including the effects of the purchase accounting adjustments, Centennial Bank acquired approximately $2.82 billion in assets, approximately $1.73 billion in loans including loan discounts and approximately $2.13 billion of deposits.

See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for an additional discussion regarding the acquisition of Liberty Bank.

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FDIC Indemnification Asset

In conjunction with certain FDIC-assisted transactions, we entered into loss share agreements with the FDIC. These agreements cover realized losses on loans, foreclosed real estate and certain other assets. These loss share assets are measured separately from the loan portfolios because they are not contractually embedded in the loans and are not transferable with the loans should we choose to dispose of them. Fair values at the acquisition dates were estimated based on projected cash flows available for loss-share based on the credit adjustments estimated for each loan pool and the loss share percentages. The loss share assets are also separately measured from the related loans and foreclosed real estate and recorded as FDIC indemnification assets on the Consolidated Balance Sheets. Subsequent to the acquisition date, reimbursements received from the FDIC for actual incurred losses will reduce the loss share assets. Reductions to expected credit losses, to the extent such reductions to expected credit losses are the result of an improvement to the actual or expected cash flows from the covered assets, will also reduce the loss share assets. Increases in expected credit losses will require an increase to the allowance for loan losses and a corresponding increase to the loss share assets. As the ten-year loss-share agreements approach their expiration dates, there could be unexpected volatility as future expected loan losses might become projected to occur outside of the loss-share coverage reimbursement window.

Table 4 summarizes the activity in our FDIC indemnification asset during the years ended December 31, 2015 and 2014:

Table 4: Changes in FDIC Indemnification Asset

	2015	2014
	(Dollars in thousands)	
Beginning balance	$ 28,409	$ 89,611
Incurred claims for FDIC covered credit losses	(11,193)	(34,331)
FDIC indemnification accretion/(amortization)	(9,391)	(25,752)
Reduction in provision for loan losses:		
Change attributable to FDIC loss share agreements	1,459	(1,119)
Ending balance	$ 9,284	$ 28,409

FDIC-Assisted Acquisitions True-Up

Our purchase and assumption agreements in connection with certain of our FDIC-assisted acquisitions allow the FDIC to recover a portion of the loss share funds previously paid out under the indemnification agreements in the event losses fail to reach the expected loss under a claw back provision. Should the markets associated with any of the banks we acquired through FDIC-assisted transactions perform better than initially projected, the Bank is required to pay this clawback (or true-up) payment to the FDIC on a specified date following the tenth anniversary of such acquisition (the True-Up Measurement Date).

Specifically, in connection with the Old Southern and Key West acquisitions, such true-up payments would be equal to 50% of the excess, if any, of (i) 20% of a stated threshold of $110.0 million in the case of Old Southern and $23.0 million in the case of Key West, less (ii) the sum of (A) 25% of the asset premium (discount) plus (B) 25% of the Cumulative Shared Loss Payments (defined as the aggregate of all of the payments made or payable to Centennial Bank minus the aggregate of all of the payments made or payable to the FDIC) plus (C) the Period Servicing Amounts for any twelve-month period prior to and ending on the True-Up Measurement Date (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets (other than shared loss securities) at the beginning and end of such period times 1%).

In connection with the Coastal-Bayside, Wakulla and Gulf State acquisitions, the true-up payments would be equal to 50% of the excess, if any, of (i) 20% of an intrinsic loss estimate of $121.0 million in the case of Coastal, $24.0 million in the case of Bayside, $73.0 million in the case of Wakulla and $35.0 million in the case of Gulf State, less (ii) the sum of (A) 20% of the net loss amount (the sum of all losses less the sum of all recoveries on covered assets) plus (B) 25% of the asset premium (discount) plus (C) 3.5% of the total loans subject to loss-sharing under the loss-sharing agreements as specified in the schedules to the agreements.

The amount of FDIC-assisted acquisitions true-up accrued at December 31, 2015 and 2014 was $11.4 million and $9.4 million, respectively.

We are currently in the beginning stages of exploring the possibility of terminating the remaining loss-share agreements with the FDIC. At this point, we have not reached an agreement with the FDIC to buy out the loss share.

As of December 31, 2015, we have an indemnification asset of $9.3 million remaining for the acquired loss-share loans. If this transaction with the FDIC were to occur, it would create a one-time acceleration of the indemnification asset plus the negotiated settlement for the true-up liability. While there is no guarantee we can reach an agreement with the FDIC, if we were to reach an agreement with the FDIC during 2016 to buy out the loss share agreements, it is anticipated this transaction will create a negative financial impact to 2016 earnings in the range of approximately $7.5 million to $12.5 million on a pre-tax basis.

If we are able to reach an agreement with the FDIC during 2016, it will create a positive financial impact to earnings of approximately $1.5 million annually on a pre-tax basis through the year 2020 as a result of the one-time acceleration of the indemnification asset amortization.

Future Acquisitions

In our continuing evaluation of our growth plans, we believe properly priced bank acquisitions can complement our organic growth and *de novo* branching growth strategies. In the near term, our principal acquisition focus will be to continue to expand our presence in Arkansas, Florida and Alabama and into other contiguous markets through pursuing both non-FDIC-assisted and FDIC-assisted bank acquisitions. However, as financial opportunities in other market areas arise, we may expand into those areas.

We will continue evaluating all types of potential bank acquisitions to determine what is in the best interest of our Company. Our goal in making these decisions is to maximize the return to our investors.

Branches

As opportunities arise, we will continue to open new (commonly referred to as *de novo*) branches in our current markets and in other attractive market areas. During 2016, we have plans to open a deposit-only branch location in New York City.

During 2014, we initiated a branch efficiency study. Since that time, we have gathered data and evaluated over 40 branch locations across our footprint. The branch efficiency study considers many variables, such as proximity to other branches, deposits, transactions, market share and profitability. As a result of the study, we closed four Arkansas, one Alabama and six Florida locations during 2015. During 2016, it is expected we will announce additional strategic consolidations where it improves efficiency in certain markets.

We currently have 77 branches in Arkansas, 59 branches in Florida, 6 branches in Alabama and a loan production office in New York City.

Results of Operations for the Years Ended December 31, 2015, 2014 and 2013

Our net income increased 22.2% to $138.2 million for the year ended December 31, 2015, from $113.1 million for the same period in 2014. On a diluted earnings per share basis, our earnings increased 18.8% to $2.02 for the year ended December 31, 2015, as compared to $1.70 for the same period in 2014. Excluding the $1.6 million of one-time gain on acquisition offset by $4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was $140.1 million and diluted earnings per share for the year ended 2015 was $2.04 per share. Excluding the $4.8 million of merger expenses associated with the acquisitions of Doral Florida and FBBI, net income was $141.1 million and diluted earnings per share for the year ended 2015 was $2.06 per share. Excluding the $6.4 million of 2014 merger expenses associated with the acquisitions of Traditions and Broward, diluted earnings per share for the year ended 2014 was $1.76 per share. Excluding merger expenses and gain on acquisition, this represents an increase of $0.28 per share or 15.9% for the year ended 2015 when compared to the previous year. Excluding merger expenses and gain on acquisition, net income for the years ended 2015 and 2014 would have been $140.1 million and $117.0 million, respectively, for an increase of $23.1 million or 19.8%. The $23.1 million increase in net income excluding merger expenses and gain on acquisition is primarily associated with additional net interest income largely resulting from our acquisitions and organic loan growth combined with reduced amortization of the indemnification asset when compared to the same period in 2014. These improvements were partially offset by an increase in the costs associated with the asset growth and the increase in provision for loan losses during 2015 when compared to the same period in 2014.

Our net income increased 70.0% to $113.1 million for the year ended December 31, 2014, from $66.5 million for the same period in 2013. On a diluted earnings per share basis, our earnings increased 49.1% to $1.70 for the year ended December 31, 2014, as compared to $1.14 for the same period in 2013. Excluding the $6.4 million of 2014 merger expenses associated with the acquisitions of Traditions and Broward, diluted earnings per share for the year ended 2014 was $1.76 per share. Excluding the $18.4 million of 2013 merger expenses associated with the acquisition of Liberty, diluted earnings per share for the year ended 2013 was $1.33 per share. Excluding merger expenses, this represents an increase of $0.43 per share or 32.3% for the year ended 2014 when compared to the previous year. Excluding merger expenses, net income for the years ended 2014 and 2013 would have been $117.0 million and $77.7 million, respectively, for an increase of $39.3 million or 50.6%. The $39.3 million increase in net income excluding the non-fundamental items is primarily associated with a full year of additional net income from our 2013 acquisition of Liberty plus 167 days of net income from our 2014 acquisition of Traditions and 69 days from our 2014 acquisition of Broward.

Net Interest Income

Net interest income, our principal source of earnings, is the difference between the interest income generated by earning assets and the total interest cost of the deposits and borrowings obtained to fund those assets. Factors affecting the level of net interest income include the volume of earning assets and interest-bearing liabilities, yields earned on loans and investments and rates paid on deposits and other borrowings, the level of non-performing loans and the amount of non-interest-bearing liabilities supporting earning assets. Net interest income is analyzed in the discussion and tables below on a fully taxable equivalent basis. The adjustment to convert certain income to a fully taxable equivalent basis consists of dividing tax-exempt income by one minus the combined federal and state income tax rate (39.225% for years ended December 31, 2015, 2014 and 2013).

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it remained until December 16, 2015 when the rate was increased slightly to

0.50% to 0.25%.

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Each quarter we perform credit impairment tests on the loans acquired in our FDIC loss-sharing and non-loss-sharing acquisitions. During 2015, the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans noted a slight decline in asset quality in several of our covered loan pools, which resulted in a net covered provision for loan loss of $998,000. Conversely, during the 2015 impairment tests on the estimated cash flows of non-loss-share loans, we established that several non-covered loan pools were determined to have a materially projected credit improvement. As a result of this improvement, we will recognize approximately $28.5 million as an additional adjustment to yield over the weighted average life of the loans. For the years ended December 31, 2015 and 2014, we recognized $47.6 million and $60.2 million, respectively in total net accretion for loans and deposits. For additional information on non-GAAP tabular disclosure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Table 31 . Consequently, with a growth of average loan balance of $1.12 billion, yields on total loans and net interest margin for the year ended December 31, 2015 is reduced when compared to the year ended December 31, 2014.

During the 2014 quarterly impairment tests on the estimated cash flows of purchased credit impaired loans, we established that certain loan pools of this type were determined to have a materially projected credit improvement. As a result of this improvement, we will recognize approximately $48.6 million as an additional adjustment to yield over the weighted average life of the loans. Since our first covered loan acquisition in 2010, we have identified a total of $83.3 million of adjustments to yield during the quarterly impairment tests. For the years ended December 31, 2014, 2013 and 2012, we recognized $28.1 million, $13.3 million and $1.5 million, respectively, of additional accretion income related to the positive results of the impairment tests.

The effective yield on non-covered loans for the years ended December 31, 2015, 2014 and 2013 was 5.67%, 6.01% and 6.01%, respectively. The effective yield on covered loans for the years ended December 31, 2015, 2014 and 2013 was 18.83%, 17.29% and 11.61%, respectively.

Net interest income on a fully taxable equivalent basis increased $39.6 million, or 12.21%, to $363.4 million for the year ended December 31, 2015, from $323.9 million for the same period in 2014. This increase in net interest income was the result of a $42.4 million increase in interest income combined with a $2.9 million increase in interest expense. The $42.4 million increase in interest income was primarily the result of a higher level of earning assets offset by lower yields on our loans. The higher level of earning assets resulted in an increase in interest income of $72.5 million. The lower yield was primarily driven by the repricing of our loans, which resulted in a $30.1 million decrease in interest income. The $2.9 million increase in interest expense for the year ended December 31, 2015, is primarily the result of an increase in higher level of our interest bearing liabilities from our acquisitions offset by our interest bearing liabilities repricing in the lower interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $4.0 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $1.1 million decrease in interest expense.

Net interest income on a fully taxable equivalent basis increased $116.9 million, or 56.5%, to $323.9 million for the year ended December 31, 2014, from $206.9 million for the same period in 2013. This increase in net interest income was the result of a $121.3 million increase in interest income offset by a $4.3 million increase in interest expense. The $121.3 million increase in interest income was primarily the result of a higher level of earning assets combined with higher yields on our loans. The $4.3 million increase in interest expense for the year ended December 31, 2014, is primarily the result of an increase in the volume of our average interest-bearing transaction and savings deposits, average time deposits and FHLB borrowings primarily associated with the acquisitions of Liberty, Traditions and Broward offset by our interest bearing liabilities repricing in the lower interest rate environment. The higher level of our interest bearing liabilities resulted in an increase in interest expense of approximately $8.2 million. The repricing of our interest bearing liabilities in the lower interest rate environment resulted in a $3.8 million decrease in interest expense.

Net interest margin, on a fully taxable equivalent basis, was 4.98% for the year ended December 31, 2015 compared to 5.37% and 5.19% for the same periods in 2014 and 2013, respectively.

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Additional information and analysis for our net interest margin can be found in Tables 29 through 31 of our Non-GAAP Financial Measurements section of the Management Discussion and Analysis.

Tables 5 and 6 reflect an analysis of net interest income on a fully taxable equivalent basis for the years ended December 31, 2015, 2014 and 2013, as well as changes in fully taxable equivalent net interest margin for the years 2015 compared to 2014 and 2014 compared to 2013.

Table 5: Analysis of Net Interest Income

	Years Ended December 31,		
	2015	**2014**	**2013**
	(Dollars in thousands)		
Interest income	$ 377,436	$ 335,888	$ 217,126
Fully taxable equivalent adjustment	7,710	6,854	4,332
Interest income fully taxable equivalent	385,146	342,742	221,458
Interest expense	21,724	18,870	14,531
Net interest income fully taxable equivalent	$ 363,422	$ 323,872	$ 206,927
Yield on earning assets fully taxable equivalent	5.28%	5.68%	5.56%
Cost of interest-bearing liabilities	0.38	0.38	0.44
Net interest spread fully taxable equivalent	4.90	5.30	5.12
Net interest margin fully taxable equivalent	4.98	5.37	5.19

Table 6: Changes in Fully Taxable Equivalent Net Interest Margin

	December 31,	
	2015 vs. 2014	**2014 vs. 2013**
	(In thousands)	
Increase (decrease) in interest income due to change in earning assets	$ 72,482	$ 119,369
Increase (decrease) in interest income due to change in earning asset yields	(30,078)	1,915
(Increase) decrease in interest expense due to change in interest-bearing liabilities	(3,955)	(8,159)
(Increase) decrease in interest expense due to change in interest rates paid on interest-bearing liabilities	1,101	3,820
Increase (decrease) in net interest income	$ 39,550	$ 116,945

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Table 7 shows, for each major category of earning assets and interest-bearing liabilities, the average amount outstanding, the interest income or expense on that amount and the average rate earned or expensed for the years ended December 31, 2015, 2014 and 2013. The table also shows the average rate earned on all earning assets, the average rate expensed on all interest-bearing liabilities, the net interest spread and the net interest margin for the same periods. The analysis is presented on a fully taxable equivalent basis. Non-accrual loans were included in average loans for the purpose of calculating the rate earned on total loans.

Table 7: Average Balance Sheets and Net Interest Income Analysis

	Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars in thousands)								
ASSETS									
Earnings assets									
Interest-bearing balances due from banks	$ 108,315	$ 233	0.22%	$ 49,794	$ 97	0.19%	$ 102,777	$ 254	0.25%
Federal funds sold	9,250	24	0.26	24,018	50	0.21	13,619	29	0.21
Investment securities taxable	1,114,829	21,695	1.95	1,041,322	19,305	1.85	665,495	12,298	1.85
Investment securities non-taxable	332,048	18,309	5.51	301,051	16,502	5.48	198,198	9,814	4.95
Loans receivable	5,732,315	344,885	6.02	4,613,919	306,788	6.65	3,005,470	199,063	6.62
Total interest-earning assets	7,296,757	$ 385,146	5.28	6,030,104	$ 342,742	5.68	3,985,559	$ 221,458	5.56
Non-earning assets	914,225			922,311			668,656		
Total assets	$ 8,210,982			$ 6,952,415			$ 4,654,215		
LIABILITIES AND SHAREHOLDERS EQUITY									
Liabilities									
Interest-bearing liabilities									
Savings and interest-bearing transaction accounts	$ 3,218,745	$ 6,306	0.20%	$ 2,839,329	$ 5,279	0.19%	$ 1,939,497	$ 3,437	0.18%
Time deposits	1,381,562	6,665	0.48	1,373,273	7,517	0.55	1,038,246	6,307	0.61
Total interest-bearing deposits	4,600,307	12,971	0.28	4,212,602	12,796	0.30	2,977,743	9,744	0.33

Federal funds purchased	824	4	0.49	956	3	0.31	520	4	0.77
Securities sold under agreement to repurchase	156,513	621	0.40	151,610	717	0.47	88,081	424	0.48
FHLB borrowed funds	902,852	6,774	0.75	486,742	4,041	0.83	191,258	3,841	2.01
Subordinated debentures	60,826	1,354	2.23	60,826	1,313	2.16	19,938	518	2.60
Total interest-bearing liabilities	5,721,322	21,724	0.38	4,912,736	18,870	0.38	3,277,540	14,531	0.44
Non-interest bearing liabilities									
Non-interest bearing deposits	1,358,905			1,101,923			761,540		
Other liabilities	48,170			21,469			25,071		
Total liabilities	7,128,397			6,036,128			4,064,151		
Stockholders equity	1,082,585			916,287			590,064		
Total liabilities and stockholders equity	$ 8,210,982			$ 6,952,415			$ 4,654,215		
Net interest spread			4.90%			5.30%			5.12%
Net interest income and margin		$ 363,422	4.98		$ 323,872	5.37		$ 206,927	5.19

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Table 8 shows changes in interest income and interest expense resulting from changes in volume and changes in interest rates for the year ended December 31, 2015 compared to 2014 and 2014 compared to 2013 on a fully taxable basis. The changes in interest rate and volume have been allocated to changes in average volume and changes in average rates, in proportion to the relationship of absolute dollar amounts of the changes in rates and volume.

Table 8: Volume/Rate Analysis

	Years Ended December 31,					
	2015 over 2014			2014 over 2013		
	Volume	Yield /Rate	Total	Volume	Yield /Rate	Total
	(In thousands)					
Increase (decrease) in:						
Interest income:						
Interest-bearing balances due from banks	$ 125	$ 11	$ 136	$ (111)	$ (46)	$ (157)
Federal funds sold	(36)	10	(26)	22	(1)	21
Investment securities taxable	1,402	988	2,390	6,967	40	7,007
Investment securities non-taxable	1,708	99	1,807	5,545	1,143	6,688
Loans receivable	69,283	(31,186)	38,097	106,946	779	107,725
Total interest income	72,482	(30,078)	42,404	119,369	1,915	121,284
Interest expense:						
Interest-bearing transaction and savings deposits	732	295	1,027	1,666	176	1,842
Time deposits	45	(897)	(852)	1,881	(671)	1,210
Federal funds purchased		1	1	4	(5)	(1)
Securities sold under agreement to repurchase	22	(118)	(96)	300	(7)	293
FHLB borrowed funds	3,156	(423)	2,733	3,411	(3,211)	200
Subordinated debentures		41	41	897	(102)	795
Total interest expense	3,955	(1,101)	2,854	8,159	(3,820)	4,339
Increase (decrease) in net interest income	$ 68,527	$ (28,977)	$ 39,550	$ 111,210	$ 5,735	$ 116,945

Provision for Loan Losses

Our management assesses the adequacy of the allowance for loan losses by applying the provisions of FASB ASC 310-10-35. Specific allocations are determined for loans considered to be impaired and loss factors are assigned to the remainder of the loan portfolio to determine an appropriate level in the allowance for loan losses. The allowance is increased, as necessary, by making a provision for loan losses. The specific allocations for impaired loans are assigned based on an estimated net realizable value after a thorough review of the credit relationship. The potential loss factors associated with the remainder of the loan portfolio are based on an internal net loss experience, as well as management s review of trends within the portfolio and related industries.

While general economic trends have improved recently, we cannot be certain that the current economic conditions will considerably improve in the near future. Recent and ongoing events at the national and international levels can create uncertainty in the financial markets. Despite these economic uncertainties, we continue to follow our historically conservative procedures for lending and evaluating the provision and allowance for loan losses. Our practice continues to be primarily traditional real estate lending with strong loan-to-value ratios.

Generally, commercial, commercial real estate, and residential real estate loans are assigned a level of risk at origination. Thereafter, these loans are reviewed on a regular basis. The periodic reviews generally include loan payment and collateral status, the borrowers financial data, and key ratios such as cash flows, operating income, liquidity, and leverage. A material change in the borrower s credit analysis can result in an increase or decrease in the loan s assigned risk grade. Aggregate dollar volume by risk grade is monitored on an on-going basis.

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Our management reviews certain key loan quality indicators on a monthly basis, including current economic conditions, delinquency trends and ratios, portfolio mix changes, and other information management deems necessary. This review process provides a degree of objective measurement that is used in conjunction with periodic internal evaluations. To the extent that this review process yields differences between estimated and actual observed losses, adjustments are made to the loss factors used to determine the appropriate level of the allowance for loan losses.

Our Company is primarily a real estate lender in the markets we serve. As such, we are subject to declines in asset quality when real estate prices fall during a recession. The recession in the latter years of the last decade harshly impacted the real estate market in Florida. The economic conditions particularly in our Florida market have improved recently, although not to pre-recession levels. Our Arkansas markets economies have been fairly stable over the past several years with no boom or bust. As a result, the Arkansas economy fared better with its real estate values during this time period.

The provision for loan losses represents management s determination of the amount necessary to be charged against the current period s earnings, to maintain the allowance for loan losses at a level that is considered adequate in relation to the estimated risk inherent in the loan portfolio.

There was $998,000, $904,000 and $991,000 provision for covered loans for years ended December 31, 2015, 2014 and 2013, respectively.

The $998,000 of provision for loan losses for the year ended December 31, 2015 is a result of the quarterly impairment testing on the estimated cash flows of our FDIC loss-share loans which noted a slight decline in asset quality in several of our covered loan pools, resulting in a net covered provision for loan loss of $998,000.

The $904,000 of provision for loan losses for the year ended December 31, 2014 is a result of the fourth quarter 2014 impairment testing on the estimated cash flows of the covered loans. This testing established that two pools outside of loss share had experienced material projected credit deterioration. While these loans are covered by loss share with the FDIC, we were not able to adjust the related indemnification asset due to the short time frame remaining on loss share coverage for these two pools. This resulted in a net provision equal to the loan losses of $904,000.

During the second quarter 2014 impairment testing on the estimated cash flows of the covered loans, we established certain pools evaluated had experienced material projected credit improvement and had covered allowance for loan losses associated with them. We recorded net provision for loan losses of zero to the allowance for loan losses related to the improvement of the purchased credit impaired loans. We recorded $280,000 of provision for loan losses forecasted outside of loss share and a negative provision for loan loss of $1.4 million before change attributable to FDIC loss share agreements. Since these loans are covered by loss share with the FDIC, we were able to decrease the related indemnification asset by $1.1 million resulting in a net provision of zero for the second quarter of 2014.

The $991,000 of provision for loan losses for the year ended December 31, 2013 is a result of the quarterly 2013 impairment testing on the estimated cash flows of the covered loans. This testing established that six pools evaluated had experienced material projected credit deterioration. As a result of this projection, we recorded a $4.4 million provision for loan losses to the allowance for loan losses related to the purchased impaired loans during the year ended December 31, 2013. Since these loans are covered by loss share with the FDIC, we were able to increase the related indemnification asset by $3.5 million resulting in a net provision for loan losses of $991,000.

There was $24.2 million, $21.8 million and $4.2 million of provision for non-covered loans for the years ended December 31, 2015, 2014, and 2013, respectively.

We experienced a $2.4 million increase in the provision for loan losses for non-covered loans during 2015 versus 2014. The expected increase from the year ended 2014 is primarily a reflection of provisioning for 2015 organic loan growth offset by a slowdown from 2014 to 2015 in the migration of the acquired Liberty loans from purchased-loan accounting treatment to originated-loan accounting treatment.

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Our provision for loan losses for non-covered loans increased $17.6 million for the year ended December 31, 2014 to $21.8 million from $4.2 million for the year ended December 31, 2013. This expected increase from 2013 was not an indication of a decline in asset quality, but primarily a reflection of the migration of the Liberty (and other acquired) loans from purchased loan accounting treatment to originated loan accounting treatment.

Based upon current accounting guidance, the allowance for loan losses is not carried over in an acquisition. As a result, none of the acquired loans had any allocation of the allowance for loan losses at merger date. This is the result of all loans acquired being recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820. However, as the acquired loans payoff or renew and the acquired footprint originates new loan production, it is necessary to establish an allowance which represents an amount that, in management s judgment, will be adequate to absorb credit losses. Traditionally, there is a large migration of these loans during the first year after acquisition, which can create an elevated provision for loan losses as was the case during 2014 with respect to the Liberty acquisition. The allowance for loan loss methodology for all originated loans as disclosed in Note 1 to the Notes to Consolidated Financial Statements was used for these loans. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Non-Interest Income

Total non-interest income was $65.5 million in 2015, compared to $44.8 million in 2014 and $40.4 million in 2013. Our recurring non-interest income includes service charges on deposit accounts, other service charges and fees, trust fees, mortgage lending, insurance, title fees, increase in cash value of life insurance, dividends and FDIC indemnification accretion/amortization.

Table 9 measures the various components of our non-interest income for the years ended December 31, 2015, 2014, and 2013, respectively, as well as changes for the years 2015 compared to 2014 and 2014 compared to 2013.

Table 9: Non-Interest Income

	Years Ended December 31,			**2015 Change from 2014**		**2014 Change from 2013**	
	2015	**2014**	**2013**				
	(Dollars in thousands)						
Service charges on deposit accounts	$ 24,252	$ 24,522	$ 17,870	$ (270)	(1.1)%	$ 6,652	37.2%
Other service charges and fees	26,186	23,914	15,733	2,272	9.5	8,181	52.0
Trust fees	2,381	1,378	335	1,003	72.8	1,043	311.3
Mortgage lending income	10,423	7,556	5,988	2,867	37.9	1,568	26.2
Insurance commissions	2,268	4,311	2,420	(2,043)	(47.4)	1,891	78.1
Income from title services	152	222	523	(70)	(31.5)	(301)	(57.6)
Increase in cash value of life insurance	1,199	1,210	836	(11)	(0.9)	374	44.7
Dividends from FHLB, FRB, Bankers bank & other	1,698	1,611	1,028	87	5.4	583	56.7
Gain on acquisitions	1,635			1,635	100.0		0.0
Gain on sale of SBA loans	541	183	135	358	195.6	48	35.6
Gain (loss) on sale of premises and equipment, net	(214)	322	397	(536)	(166.5)	(75)	(18.9)
Gain (loss) on OREO, net	(317)	2,191	1,651	(2,508)	(114.5)	540	32.7

Gain (loss) on securities, net	4		111	4	100.0	(111)	(100.0)
FDIC indemnification accretion/(amortization), net	(9,391)	(25,752)	(10,401)	16,361	(63.5)	(15,351)	147.6
Other income	4,681	3,094	3,739	1,587	51.3	(645)	(17.3)
Total non-interest income	$ 65,498	$ 44,762	$ 40,365	$ 20,736	46.3%	$ 4,397	10.9%

Non-interest income increased $20.7 million, or 46.3%, to $65.5 million for the year ended December 31, 2015 from $44.8 million for the same period in 2014. Non-interest income excluding gain on acquisitions increased $19.1 million, or 42.7 %, to $63.9 million for the year ended December 31, 2015 from $44.8 million for the same period in 2014.

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Excluding gain on acquisitions, the primary factors that resulted in this increase were improvements related to other service charges and fees, trust fees, mortgage lending, amortization on our FDIC indemnification asset and other income offset by a decrease in service charges on deposits, insurance, net changes in sale of premises and equipment gains and losses, and net changes in OREO gains and losses.

Additional details for the year ended December 31, 2015 on some of the more significant changes are as follows:

Although we have experienced an increase in deposits from acquisitions during the last twelve months, we have experienced a $270,000 decrease in service charges on deposit accounts. This decrease is primarily the result of an improving economy where the banking industry is experiencing fewer overdraft fees.

The $2.3 million increase in other service charges and fees is primarily from our acquisitions plus additional loan payoff fees generated by the Centennial CFG.

The $1.0 million increase in trust fees is primarily associated with $865,000 in 12B-1 trust fees during the second quarter of 2015, of which we anticipate only approximately $77,000 will be received on a recurring basis.

The $2.9 million increase in mortgage lending income is from the additional lending volume from our acquisitions combined with the organic growth during 2015. We hired a mortgage lending president during 2014 to oversee this product offering. This additional management position is responsible for improved pricing and efficiencies which is ultimately generating more revenue from the organic growth.

The $2.0 million decrease in insurance commissions is primarily from the sale of insurance book of business. Effective January 1, 2015, Centennial Insurance Agency sold the insurance book of business of the former Town and Country Insurance to Stephens Insurance, LLC of Little Rock. This disposal was completed at our book value with no gain or loss. The net profit on this book of business was immaterial.

The $16.4 million improvement in FDIC indemnification accretion/amortization, net is primarily associated with the conclusion of the five-year covered loan loss-share agreements plus a lack of recent additional credit improvements in the covered loan portfolio which has not created additional FDIC indemnification asset amortization. For further discussion and analysis, reference Tables 2 and 3 in this Management s Discussion and Analysis.

The $1.6 million increase in other income is primarily associated with $1.0 million of loan recoveries on our FDIC covered transactions. The most significant portion of this $1.0 million was loan recoveries on two of our FDIC covered loans. We were able to collect a total recovery of approximately $3.2 million in 2015 on two loans that were charged-off prior to the acquired bank being closed by the FDIC. Our agreement with the FDIC requires us to share 80% of these type recoveries with the FDIC and we are able to retain the remaining 20%. As a result, we recorded approximately $626,000 in other income for these two recoveries.

The primary factors that resulted in the 2014 increase were improvements related to service charges on deposits, other service charges and fees, trust fees, mortgage lending, insurance, and net changes in OREO gains and losses offset by changes in gains and losses on sale of premises and equipment and an increase in amortization on our FDIC indemnification asset.

Additional details for the year ended December 31, 2014 on some of the more significant changes are as follows:

- The $14.8 million increase in service charges on deposit accounts and other service charges and fees is primarily from our 2013 acquisition of Liberty and 2014 acquisitions of Traditions and Broward.

- The $1.0 million increase in trust fees is primarily from our 2013 acquisition of Liberty.

- The $1.6 million increase in mortgage lending income is primarily from the additional lending volume from the 2013 and 2014 acquisitions.

- The $1.9 million increase in insurance commissions is primarily from our 2013 acquisition of Liberty.

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The $15.4 million decrease in FDIC indemnification accretion/amortization, net is primarily associated with the quarterly impairment testing on the estimated cash flows of the covered loans. For further discussion and analysis, reference Tables 2 and 3 in the Management s Discussion and Analysis.

The $645,000 decrease in other income is primarily from $326,000 of tax-free life insurance proceeds during 2013. The proceeds were in connection with two former associates who were not currently with our Company.

The primary factors that resulted in the 2013 decrease was an increase in amortization on our FDIC indemnification asset offset by improvements related to service charges on deposits, other service charges and fees, mortgage lending income, insurance commissions, changes in OREO gains and other income.

Additional details on some of the more significant changes are as follows:

The increase in service charges on deposit accounts is primarily from our 2012 and 2013 acquisitions.

The increase in other service charges and fees is primarily from our 2012 and 2013 acquisitions. Included in this growth was approximately $269,000 of trust fees associated with the 69 days in which Liberty was part of our Company.

The increase in mortgage lending income is primarily related to mortgage lending activities resulting from the historically low rate environment during 2013 plus additional volume from the 2012 and 2013 acquisitions.

The decrease in FDIC indemnification accretion/amortization, net is primarily associated with the impairment testing on the estimated cash flows of the covered loans during 2013 including the payoff of one covered loan pool. As a result of the impairment testing, those loans were determined to have a materially projected credit improvement. Improvements in credit quality decrease the basis in the related indemnification asset. This positive event will reduce the indemnification asset by approximately $20.9 million of which $10.3 million was recognized for the year ended December 31, 2013. The $20.9 million is being amortized over the weighted average life of the shared-loss agreement. As a result of the covered pool payoff, $1.9 million of unexpected 2013 cash flows was recognized as an adjustment to yield on loans for 2013. This positive event reduced the indemnification asset by approximately $1.5 million of which the entire amount was recognized as a reduction of 2013 earnings and is included in the $10.3 million.

The increase in insurance is primarily from internal growth and our Liberty acquisition.

The increase in other income is primarily from $326,000 of tax-free life insurance proceeds during 2013. The proceeds were in connection with two former associates who were not currently with our Company.

During the first quarter of 2016, we have plans to close our title services company. This strategic decision was made to improve overall profitability. We anticipate the financial statement impact to be immaterial.

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Non-Interest Expense

Non-interest expense consists of salaries and employee benefits, occupancy and equipment, data processing, and other expenses such as advertising, merger and acquisition expenses, amortization of intangibles, electronic banking expense, FDIC and state assessment, insurance, legal and accounting fees and other professional fees.

Table 10 below sets forth a summary of non-interest expense for the years ended December 31, 2015, 2014, and 2013, as well as changes for the years ended 2015 compared to 2014 and 2014 compared to 2013.

Table 10: Non-Interest Expense

	Years Ended December 31,			2015 Change from 2014		2014 Change from 2013	
	2015	2014	2013				
	(Dollars in thousands)						
Salaries and employee benefits	$ 87,512	$ 77,025	$ 58,394	$ 10,487	13.6%	$ 18,631	31.9%
Occupancy and equipment	25,967	25,031	17,168	936	3.7	7,863	45.8
Data processing expense	10,774	7,229	5,393	3,545	49.0	1,836	34.0
Other operating expenses:							
Advertising	2,986	2,568	1,829	418	16.3	739	40.4
Merger and acquisition expenses	4,800	6,438	18,378	(1,638)	(25.4)	(11,940)	(65.0)
Amortization of intangibles	4,079	4,630	3,624	(551)	(11.9)	1,006	27.8
Electronic banking expense	5,166	5,308	4,207	(142)	(2.7)	1,101	26.2
Directors fees	1,071	912	767	159	17.4	145	18.9
Due from bank service charges	1,096	803	616	293	36.5	187	30.4
FDIC and state assessment	5,287	4,288	2,849	999	23.3	1,439	50.5
Insurance	2,542	2,538	2,449	4	0.2	89	3.6
Legal and accounting	2,028	2,012	1,393	16	0.8	619	44.4
Other professional fees	3,226	2,200	1,928	1,026	46.6	272	14.1
Operating supplies	1,880	1,928	1,439	(48)	(2.5)	489	34.0
Postage	1,196	1,331	945	(135)	(10.1)	386	40.8
Telephone	1,917	1,968	1,260	(51)	(2.6)	708	56.2
Other expense	16,028	15,734	10,668	294	1.9	5,066	47.5
Total non-interest expense	$ 177,555	$ 161,943	$ 133,307	$ 15,612	9.6%	$ 28,636	21.5%

Non-interest expense, excluding merger expenses, increased $17.3 million, or 11.1%, to $172.8 million for the year ended December 31, 2015, from $155.5 million for the same period in 2014. This increase primarily results from additional expense associated with the creation of Centennial CFG and the acquisitions of Traditions, Broward and FBBI. These acquisitions have helped us grow from $6.81 billion in total assets as of December 31, 2013 to $9.29 billion as of December 31, 2015.

The opening of the Centennial CFG loan production office resulted in $7.4 million of non-interest expense during 2015. While the cost of doing business in New York City is significantly higher than our Arkansas, Florida and Alabama markets, we are still committed to cost-saving measures while achieving our company-wide growth goals.

Salaries and employee benefits, increased $10.5 million, or 13.6%, to $87.5 million for the year ended December 31, 2015, from $77.0 million for the same period in 2014. This increase is primarily comprised of additional salaries and employee benefits of $4.7 million for Centennial CFG and $4.6 million for our Florida acquisitions during 2014 and 2015. Excluding the additional costs from Centennial CFG and acquisitions, our salaries and employee benefits increased approximately 1.5% from 2014 to 2015.

Non-interest expense, excluding merger expenses, increased $40.6 million, or 35.3%, to $155.5 million for the year ended December 31, 2014, from $114.9 million for the same period in 2013. These increases primarily result from additional expense associated with the acquisitions of Liberty, Traditions and Broward during 2013 and 2014, respectively. These acquisitions have grown our Company from $4.24 billion in total assets as of December 31, 2012 to $7.40 billion as of December 31, 2014.

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Income Taxes

The income tax expense increased $16.2 million, or 25.2%, to $80.3 million for the year ended December 31, 2015, from $64.1 million for 2014. The income tax expense increased $26.2 million, or 68.9%, to $64.1 million for the year ended December 31, 2014, from $38.0 million for 2013. The effective tax rate for the years ended December 31, 2015, 2014 and 2013 were 36.75%, 36.18% and 36.33%, respectively. The primary cause of the increase in taxes is the result of our higher earnings at our marginal tax rate of 39.225%.

Financial Conditions as of and for the Years Ended December 31, 2015 and 2014

Our total assets increased $1.89 billion, an increase of 25.5%, to $9.29 billion as of December 31, 2015, from the $7.40 billion reported as of December 31, 2014. Our loan portfolio not covered by loss share increased $1.76 billion, an increase of 36.6%, to $6.58 billion as of December 31, 2015, from $4.82 billion as of December 31, 2014. This increase is primarily associated with the first quarter of 2015 acquisition of $37.9 million of Doral Florida non-covered loans, net of the $4.3 million discount, the 2015 migration of $145.2 million net covered loans to non-covered status, the second quarter of 2015 acquisition of $289.1 million in national commercial real estate loans, the fourth quarter of 2015 acquisition of $422.4 million of FBBI non-covered loans, net of the $14.1 million discount, plus $881.6 million of organic loan growth since December 31, 2014. Our loan portfolio covered by loss share decreased by $178.0 million, a reduction of 74.1%, to $62.2 million as of December 31, 2015, from $240.2 million as of December 31, 2014. This decrease is primarily associated with the migration of a total of $145.2 million net covered loans to non-covered status during 2015 as a result of the expiration of our five-year loss-share agreements plus normal pay-downs and payoffs. Stockholders equity increased $184.5 million, an increase of 18.2%, to $1.20 billion as of December 31, 2015, compared to $1.02 billion as of December 31, 2014. The increase in stockholders equity is primarily associated with the $100.6 million increase in retained earnings plus $83.8 million of common stock issued to the FBBI shareholders offset by the $2.8 million of comprehensive losses.

Our total assets increased $591.4 million, an increase of 8.7%, to $7.40 billion as of December 31, 2014, from the $6.81 billion reported as of December 31, 2013. Our loan portfolio not covered by loss share increased $622.9 million, an increase of 14.9%, to $4.82 billion as of December 31, 2014, from $4.19 billion as of December 31, 2013. This increase is primarily associated with the acquisitions of $241.6 million from Traditions non-covered loans and $121.1 million from Broward non-covered loans plus $260.1 million of loan growth since December 31, 2013. Our loan portfolio covered by loss share decreased by $42.3 million, a reduction of 15.0%, to $240.2 million as of December 31, 2014, from $282.5 million as of December 31, 2013. The decrease in the covered loan portfolio is the result of pay downs and payoffs since no covered loans were acquired during 2014. Stockholders equity increased $174.3 million, an increase of 20.7%, to $1.02 billion as of December 31, 2014, compared to $841.0 million as of December 31, 2013. The increase in stockholders equity is primarily associated with the $39.5 million of common stock issued to the Traditions shareholders and $30.2 million of common stock issued to the Broward shareholders combined with the $124.2 million of comprehensive income less the $23.2 million of dividends paid for 2014.

Loan Portfolio

Loans Receivable Not Covered by Loss Share

Our non-covered loan portfolio averaged $5.58 billion during 2015, $4.35 billion during 2014 and $2.67 billion during 2013. Non-covered loans were $6.58 billion, $4.82 billion and $4.19 billion as of December 31, 2015, 2014 and 2013, respectively. Excluding the acquisitions of Doral Florida and FBBI, the migration of Old Southern, Key West, Coastal, Bayside, Gulf and Wakulla loans from loans covered by FDIC loss share to loans not covered by loss share status, and the acquisition of national commercial real estate loans, our non-covered loan portfolio increased $881.6

million, or 18.3%, from 2014 to 2015. Excluding the $362.7 million of loans acquired from Traditions and Broward our non-covered loan portfolio increased $260.1 million, or 6.2%, from 2013 to 2014.

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Excluding the $1.73 billion of loans acquired from Liberty our non-covered loan portfolio increased $131.6 million, or 5.6%, from 2012 to 2013.

On February 27, 2015, we acquired $37.9 million of loans after $4.3 million of loan discounts from Doral Florida, which are being accounted for in accordance with the provisions of ASC Topic 310-20 and ASC Topic 310-30.

On April 1, 2015, we acquired a pool of national commercial real estate loans from J.C. Flowers & Co. LLC totaling approximately $289.1 million. We produced approximately $881.6 million of organic non-covered loan growth since December 31, 2014, of which $426.7 million is associated with Centennial CFG with the remaining $454.9 million being associated with loan originations in the legacy footprint.

On October 1, 2015, we acquired $408.3 million of loans after $14.1 million of loan discounts from FBBI, which are being accounted for in accordance with the provisions of ASC Topic 310-20 and ASC Topic 310-30.

During 2015, the five-year loss share agreements on the commercial real estate and commercial and industrial loans acquired through the FDIC-assisted acquisitions of Old Southern, Key West, Coastal, Bayside, Wakulla and Gulf State concluded. As a result, $145.2 million of these loans including their associated discounts previously classified as covered loans have migrated to non-covered loans status.

The most significant components of the non-covered loan portfolio were commercial real estate, residential real estate, consumer, and commercial and industrial loans. These non-covered loans are primarily originated within our market areas of Arkansas, Florida and South Alabama, and are generally secured by residential or commercial real estate or business or personal property within our market areas. Non-covered loans were $3.40 billion, $2.21 billion and $248.6 million as of December 31, 2015 in Arkansas, Florida and Alabama, respectively.

As of December 31, 2015, we had $415.8 million of construction/land development loans which were collateralized by land. This consisted of $225.4 million for raw land and $190.4 million for land with commercial and/or residential lots.

Table 11 presents our period end loan balances not covered by loss share by category as of December 31, 2015, 2014, 2013, 2012, and 2011.

Table 11: Non-Covered Loan Portfolio

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(In thousands)				
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	$ 2,968,147	$ 1,987,890	$ 1,739,668	$ 1,019,039	$ 698,986
Construction/land development	943,095	700,139	562,667	254,800	361,846
Agricultural	75,027	72,211	81,618	32,513	28,535
Residential real estate loans:					
Residential 1-4 family	1,130,714	963,990	913,332	549,269	349,543
Multifamily residential	429,872	250,222	213,232	129,742	56,909

Total real estate	5,546,855	3,974,452	3,510,517	1,985,363	1,495,819
Consumer	52,258	56,720	69,570	37,462	37,923
Commercial and industrial	850,357	670,124	511,421	256,908	176,276
Agricultural	67,109	48,833	37,129	19,825	21,784
Other	62,822	67,185	65,800	31,641	28,284
Loans receivable not covered by loss share	$ 6,579,401	$ 4,817,314	$ 4,194,437	$ 2,331,199	$ 1,760,086

As of acquisition date, we evaluated $1.61 billion of net loans ($1.67 billion gross loans less $62.1 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. As of December 31, 2015, the net loan balance of the Liberty ASC Topic 310-20 purchased loans is $794.9 million ($813.0 million gross loans less $18.1 million discount). The fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

As of acquisition date, we evaluated $120.5 million of net loans ($162.4 million gross loans less $41.9 million discount) purchased in conjunction with the acquisition of Liberty in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As of December 31, 2015, the net loan balance of the Liberty ASC Topic 310-30 purchased loans is $74.6 million ($107.1 million gross loans less $32.5 million discount). These purchased non-covered loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected.

Non-Covered Commercial Real Estate Loans. We originate non-farm and non-residential loans (primarily secured by commercial real estate), construction/land development loans, and agricultural loans, which are generally secured by real estate located in our market areas. Our commercial mortgage loans are generally collateralized by first liens on real estate and amortized over a 15 to 25 year period with balloon payments due at the end of one to five years. These loans are generally underwritten by assessing cash flow (debt service coverage), primary and secondary source of repayment, the financial strength of any guarantor, the strength of the tenant (if any), the borrower s liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, we will loan up to 85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

As of December 31, 2015, non-covered commercial real estate loans totaled $3.99 billion, or 60.6%, of our non-covered loan portfolio, as compared to $2.76 billion, or 57.3% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida, Alabama and Centennial CFG non-covered commercial real estate loans were $1.83 billion, $1.42 billion, $152.2 million and $585.5 million at December 31, 2015, respectively.

Non-Covered Residential Real Estate Loans. We originate one to four family, residential mortgage loans generally secured by property located in our primary market areas. Approximately 36.9% and 43.3% of our non-covered residential mortgage loans consist of owner occupied 1-4 family properties and non-owner occupied 1-4 family properties (rental), respectively, as of December 31, 2015. Non-covered residential real estate loans generally have a loan-to-value ratio of up to 90%. These loans are underwritten by giving consideration to the borrower s ability to pay, stability of employment or source of income, debt-to-income ratio, credit history and loan-to-value ratio.

As of December 31, 2015, non-covered residential real estate loans totaled $1.56 billion, or 23.7%, of our non-covered loan portfolio, compared to $1.21 billion, or 25.2% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida, Alabama and Centennial CFG non-covered residential real estate loans were $916.2 million, $512.1 million, $69.4 million and $62.9 million at December 31, 2015, respectively.

Non-Covered Consumer Loans. Our non-covered consumer loan portfolio is composed of secured and unsecured loans originated by our bank. The performance of consumer loans will be affected by the local and regional economies as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

As of December 31, 2015, our non-covered consumer loan portfolio totaled $52.3 million, or 0.8%, of our total non-covered loan portfolio, compared to the $56.7 million, or 1.2% of our non-covered loan portfolio as of December 31, 2014. Our Arkansas, Florida, Alabama and Centennial CFG non-covered consumer loans were $30.0 million, $21.1 million, $1.2 million and zero at December 31, 2015, respectively.

Non-Covered Commercial and Industrial Loans. Commercial and industrial loans are made for a variety of business purposes, including working capital, inventory, equipment and capital expansion. The terms for commercial loans are generally one to seven years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, the financial strength of any guarantor, the borrower s liquidity and leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed at between 50% and 80% of accounts receivable less than 60 days past due. Inventory financing will range between 50% and 60% (with no work in process) depending on the borrower and nature of inventory. We require a first lien position for those loans.

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As of December 31, 2015, non-covered commercial and industrial loans outstanding totaled $850.4 million, or 12.9% of our non-covered loan portfolio, which is comparable to $670.1 million, or 13.9% of our non-covered loan portfolio, as of December 31, 2014. Our Arkansas, Florida, Alabama and Centennial CFG non-covered commercial and industrial loans were $530.6 million, $228.8 million, $23.7 million and $67.3 million at December 31, 2015, respectively.

Non-Covered Agricultural Loans. Our portfolio of agricultural loans includes loans for financing agricultural production, including loans to businesses or individuals engaged in the production of timber, poultry, livestock or crops and are not categorized as part of non-covered real estate loans. Our agricultural loans are generally secured by farm machinery, livestock, crops, vehicles or other agricultural-related collateral. A portion of our portfolio of agricultural loans is comprised of loans to individuals which would normally be characterized as consumer loans except for the fact that the individual borrowers are primarily engaged in the production of timber, poultry, livestock or crops.

As of December 31, 2015, our non-covered agricultural loan portfolio totaled $67.1 million, or 1.0%, of our total non-covered loan portfolio, compared to the $48.8 million, or 1.0% of our non-covered loan portfolio as of December 31, 2014. Our Arkansas, Florida, Alabama and Centennial CFG non-covered agricultural loans were $49.1 million, $18.0 million, zero and zero at December 31, 2015, respectively.

Total Loans Receivable

Table 12 presents total loans receivable by category.

Table 12: Total Loans Receivable

As of December 31, 2015

	Loans Receivable Not Covered by Loss Share	Loans Receivable Covered by FDIC Loss Share	Total Loans Receivable
		(In thousands)	
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 2,968,147	$ 188	$ 2,968,335
Construction/land development	943,095	1,692	944,787
Agricultural	75,027		75,027
Residential real estate loans			
Residential 1-4 family	1,130,714	59,565	1,190,279
Multifamily residential	429,872	384	430,256
Total real estate	5,546,855	61,829	5,608,684
Consumer	52,258		52,258
Commercial and industrial	850,357	230	850,587

Agricultural	67,109		67,109
Other	62,822	111	62,933
Total	$ 6,579,401	$ 62,170	$ 6,641,571

Table 13 presents the distribution of the maturity of our total loans as of December 31, 2015. The table also presents the portion of our loans that have fixed interest rates and interest rates that fluctuate over the life of the loans based on changes in the interest rate environment.

The loans acquired during our acquisitions accrete interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted average life of the loans) decrease the basis of the shared-loss agreements, with such decrease being accreted into income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter.

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Table 13: Maturity of Loans

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
		(In thousands)		
Real estate:				
Commercial real estate loans				
Non-farm/non-residential	$ 599,194	$ 1,742,259	$ 626,882	$ 2,968,335
Construction/land development	340,122	513,348	91,317	944,787
Agricultural	18,054	33,191	23,782	75,027
Residential real estate loans				
Residential 1-4 family	192,729	605,811	391,739	1,190,279
Multifamily residential	80,341	214,908	135,007	430,256
Total real estate	1,230,440	3,109,517	1,268,727	5,608,684
Consumer	22,986	27,696	1,576	52,258
Commercial and industrial	251,303	483,554	115,730	850,587
Agricultural	33,097	30,870	3,142	67,109
Other	5,401	33,976	23,556	62,933
Total loans receivable	$ 1,543,227	$ 3,685,613	$ 1,412,731	$ 6,641,571
Non-covered with fixed interest rates	$ 868,068	$ 2,899,038	$ 549,463	$ 4,316,569
Non-covered with floating interest rates	576,319	697,194	797,498	2,071,011
Purchased credit impaired loans acquired	98,840	89,381	65,770	253,991
Total loans receivable	$ 1,543,227	$ 3,685,613	$ 1,412,731	$ 6,641,571

Non-Performing Assets Not Covered by Loss Share

We classify our non-covered problem loans into three categories: past due loans, special mention loans and classified loans (accruing and non-accruing).

When management determines that a loan is no longer performing, and that collection of interest appears doubtful, the loan is placed on non-accrual status. Loans that are 90 days past due are placed on non-accrual status unless they are adequately secured and there is reasonable assurance of full collection of both principal and interest. Our management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on non-accrual status.

We have non-covered loans acquired with deteriorated credit quality in our December 31, 2015 financial statements as a result of our historical acquisitions plus the migration of loans covered by FDIC loss share to loans not covered by loss share status. The credit metrics most heavily impacted by our acquisitions of acquired non-covered loans with deteriorated credit quality were the following credit quality indicators listed in Table 14 below:

Allowance for loan losses for non-covered loans to non-performing non-covered loans;

Non-performing non-covered loans to total non-covered loans; and

Non-performing non-covered assets to total non-covered assets.

On the date of acquisition, acquired credit-impaired loans are initially recognized at fair value, which incorporates the present value of amounts estimated to be collectible. As a result of the application of this accounting methodology, certain credit-related ratios, including those referenced above, may not necessarily be directly comparable with periods prior to the acquisition of the credit-impaired non-covered loans and non-covered non-performing assets, or comparable with other institutions.

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Table 14 sets forth information with respect to our non-performing non-covered assets as of December 31, 2015, 2014, 2013, 2012, and 2011. As of these dates, all non-performing non-covered restructured loans are included in non-accrual non-covered loans.

Table 14: Non-performing Assets Not Covered by Loss Share

	As of December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Non-accrual non-covered loans	$ 36,374	$ 24,691	$ 15,133	$ 21,336	$ 26,496
Non-covered loans past due 90 days or more (principal or interest payments)	23,845	14,871	23,141	5,937	993
Total non-performing non-covered loans	60,219	39,562	38,274	27,273	27,489
Other non-performing non-covered assets					
Non-covered foreclosed assets held for sale, net	18,526	16,951	29,869	20,393	16,660
Other non-performing non-covered assets	38		281	164	8
Total other non-performing non-covered assets	18,564	16,951	30,150	20,557	16,668
Total non-performing non-covered assets	$ 78,783	$ 56,513	$ 68,424	$ 47,830	$ 44,157
Allowance for loan losses for non-covered loans to non-performing non-covered loans	110.66%	132.63%	101.95%	165.62%	189.64%
Non-performing non-covered loans to total non-covered loans	0.92	0.82	0.91	1.17	1.56
Non-performing non-covered assets to total non-covered assets	0.85	0.79	1.07	1.30	1.53

Our non-performing non-covered loans are comprised of non-accrual non-covered loans and accruing non-covered loans that are contractually past due 90 days. Our bank subsidiary recognizes income principally on the accrual basis of accounting. When loans are classified as non-accrual, the accrued interest is charged off and no further interest is accrued, unless the credit characteristics of the loan improve. If a loan is determined by management to be uncollectible, the portion of the loan determined to be uncollectible is then charged to the allowance for loan losses.

Total non-performing non-covered loans were $60.2 million as of December 31, 2015, compared to $39.6 million as of December 31, 2014 for an increase of $20.7 million. Of the $20.7 million increase in non-performing loans, $3.8 million is from an increase in non-performing loans in our Arkansas market, $17.0 million from an increase in non-performing loans in our Florida market and $170,000 from a decrease in non-performing loans in our Alabama market. Our acquisition of FBBI during the fourth quarter of 2015 added $13.6 million to non-performing loans. Non-performing loans at December 31, 2015 are $28.3 million, $31.8 million, $132,000 and zero in the Arkansas, Florida, Alabama and Centennial CFG markets, respectively.

Although the current state of the real estate market has improved, uncertainties still present in the economy may continue to increase our level of non-performing non-covered loans. While we believe our allowance for loan losses is adequate and our purchased loans are adequately discounted at December 31, 2015, as additional facts become known about relevant internal and external factors that affect loan collectability and our assumptions, it may result in us making additions to the provision for loan losses during 2016. Our current or historical provision levels should not be relied upon as a predictor or indicator of future levels going forward.

Troubled debt restructurings (TDRs) generally occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near term. As a result, the Bank will work with the borrower to prevent further difficulties, and ultimately to improve the likelihood of recovery on the loan. In those circumstances it may be beneficial to restructure the terms of a loan and work with the borrower for the benefit of both parties, versus forcing the property into foreclosure and having to dispose of it in an unfavorable and depressed real estate market. When we have modified the terms of a loan, we usually either reduce the monthly payment and/or interest rate for generally about three to twelve months. For our troubled debt restructurings that accrue interest at the time the loan is restructured, it would be a rare exception to have charged-off any portion of the loan. Only non-performing restructured loans are included in our non-performing non-covered loans. As of December 31, 2015, we had $14.8 million of non-covered restructured loans that are in compliance with the modified terms and are not reported as past due or non-accrual in Table 14. Our Florida market contains $11.2 million of these non-covered restructured loans.

A loan modification that might not otherwise be considered may be granted resulting in classification as a troubled debt restructuring. These loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on an accrual status, depending on the individual facts and circumstances of the borrower. Generally, a non-accrual loan that is restructured remains on non-accrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can pay the new terms and may result in the loan being returned to an accrual status after a shorter performance period. If the borrower s ability to meet the revised payment schedule is not reasonably assured, the loan will remain in a non-accrual status.

The majority of the Bank s loan modifications relate to commercial lending and involve reducing the interest rate, changing from a principal and interest payment to interest-only, a lengthening of the amortization period, or a combination of some or all of the three. In addition, it is common for the Bank to seek additional collateral or guarantor support when modifying a loan. At December 31, 2015, the amount of troubled debt restructurings was $18.2 million, a decrease of 32.3% from $26.9 million at December 31, 2014. As of December 31, 2015 and 2014, 81.2% and 100.0%, respectively, of all restructured loans were performing to the terms of the restructure.

Total foreclosed assets held for sale not covered by loss share were $18.5 million as of December 31, 2015, compared to $17.0 million as of December 31, 2014 for an increase of $1.6 million. The foreclosed assets held for sale not covered by loss share as of December 31, 2015 are comprised of $12.1 million of assets located in Arkansas, $5.7 million of assets located in Florida, $760,000 located in Alabama and zero from Centennial CFG.

During 2015, we had three non-covered foreclosed properties with a carrying value greater than $1.0 million. One of these three properties is a non-farm/non-residential property in the Florida Panhandle and holds a carrying value of $1.0 million at December 31, 2015. Another non-farm/non-residential property was acquired in the Liberty acquisition and holds an aggregate carrying value of $3.2 million at December 31, 2015. The remaining property is a development loan in Northwest Arkansas which has been foreclosed since 2011. The carrying value was $2.0 million at December 31, 2015. We do not currently anticipate any additional losses on these properties. As of December 31, 2015, no other foreclosed assets held for sale not covered by loss share have a carrying value greater than $1.0 million.

Total foreclosed assets held for sale not covered by loss share were $17.0 million as of December 31, 2014, compared to $29.9 million as of December 31, 2013 for a decrease of $12.9 million. The foreclosed assets held for sale not covered by loss share as of December 31, 2014 are comprised of $14.8 million of assets located in Arkansas, $2.2 million of assets located in Florida and the remaining $15,000 located in Alabama.

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Table 15 shows the summary of foreclosed assets held for sale as of December 31, 2015, 2014, 2013, 2012 and 2011.

Table 15: Total Foreclosed Assets Held For Sale

	As of December 31, 2015			As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
			(In thousands)			
Commercial real estate loans						
Non-farm/non-residential	$ 9,787	$	$ 9,787	$ 6,894	$ 3,935	$ 10,829
Construction/land development	5,286		5,286	6,189	2,847	9,036
Agricultural					3	3
Residential real estate loans						
Residential 1-4 family	3,233	614	3,847	3,381	1,086	4,467
Multifamily residential	220		220	487		487
Total foreclosed assets held for sale	$ 18,526	$ 614	$ 19,140	$ 16,951	$ 7,871	$ 24,822

	As of December 31, 2013			As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
			(In thousands)			
Commercial real estate loans						
Non-farm/non-residential	$ 8,422	$ 9,677	$ 18,099	$ 7,532	$ 9,024	$ 16,556
Construction/land development	17,675	5,517	23,192	7,343	13,586	20,929
Agricultural		651	651		599	599
Residential real estate loans						
Residential 1-4 family	3,772	5,154	8,926	5,518	8,317	13,835
Total foreclosed assets held for sale	$ 29,869	$ 20,999	$ 50,868	$ 20,393	$ 31,526	$ 51,919

	As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
		(In thousands)	
Commercial real estate loans			
Non-farm/non-residential	$ 8,159	$ 10,166	$ 18,325

Construction/land development	4,822	14,796	19,618
Agricultural	525	599	1,124
Residential real estate loans			
Residential 1-4 family	3,154	9,617	12,771
Total foreclosed assets held for sale	$ 16,660	$ 35,178	$ 51,838

A loan is considered impaired when it is probable that we will not receive all amounts due according to the contracted terms of the loans. Impaired loans include non-performing loans (loans past due 90 days or more and non-accrual loans), criticized and/or classified loans with a specific allocation, loans categorized as TDRs and certain other loans identified by management that are still performing (loans included in multiple categories are only included once). As of December 31, 2015, average non-covered impaired loans were $88.1 million compared to $91.8 million as of December 31, 2014. As of December 31, 2015, non-covered impaired loans were $91.6 million compared to $85.4 million as of December 31, 2014, for an increase of $6.1 million. This increase is primarily associated with the increase in loan balances with a specific allocation offset by a decrease in the level of loans categorized as TDRs. As of December 31, 2015, our Arkansas, Florida, Alabama and Centennial CFG markets accounted for approximately $41.1 million, $50.4 million, $132,000 and zero of the non-covered impaired loans, respectively.

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We evaluated loans purchased in conjunction with our historical acquisitions for impairment in accordance with the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. Purchased impaired non-covered loans are not classified as non-performing non-covered assets for the recognition of interest income as the pools are considered to be performing. However, for the purpose of calculating the non-performing credit metrics, we have included all of the non-covered loans which are contractually 90 days past due and still accruing, including those in performing pools. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased impaired loans.

All non-covered loans acquired with deteriorated credit quality are considered impaired loans at the date of acquisition. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans are not classified as impaired. Since the loans are accounted for on a pooled basis under ASC 310-30, individual loans subsequently restructured within the pools are not classified as TDRs in accordance with ASC 310-30-40. For non-covered loans acquired with deteriorated credit quality that were deemed TDRs prior to our acquisition of them, these loans are also not considered TDRs as they are accounted for under ASC 310-30.

Past Due and Non-Accrual Loans

As of December 31, 2015 and 2014, there was not a material amount of non-covered loans acquired with deteriorated credit quality on non-accrual status as a result of most of the loans being accounted for on the pool basis and the pools are considered to be performing for the accruing of interest income. Also, acquired loans contractually past due 90 days or more are accruing interest because the pools are considered to be performing for the purpose of accruing interest income.

Table 16 shows the summary non-accrual loans as of December 31, 2015, 2014, 2013, 2012 and 2011:

Table 16: Total Non-Accrual Loans

	As of December 31, 2015			**As of December 31, 2014**		
	Not Covered by Loss Share	**Covered by FDIC Loss Share**	**Total**	**Not Covered by Loss Share**	**Covered by FDIC Loss Share**	**Total**
			(In thousands)			
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 15,811	$	$ 15,811	$ 8,901	$	$ 8,901
Construction/land development	2,952		2,952	926		926
Agricultural	531		531			
Residential real estate loans						
Residential 1-4 family	12,574		12,574	11,949		11,949
Multifamily residential	870		870	1,344		1,344
Total real estate	32,738		32,738	23,120		23,120
Consumer	239		239	279		279

Commercial and industrial	2,363		2,363	1,108		1,108
Agricultural						
Other	1,034		1,034	184		184
Total non-accrual loans	$ 36,374	$	$ 36,374	$ 24,691	$	$ 24,691

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	As of December 31, 2013			As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 5,093	$	$ 5,093	$ 3,659	$	$ 3,659
Construction/land development	1,080		1,080	2,680		2,680
Agricultural	89		89	140		140
Residential real estate loans						
Residential 1-4 family	7,283		7,283	9,972		9,972
Multifamily residential	1		1	3,215		3,215
Total real estate	13,546		13,546	19,666		19,666
Consumer	124		124	593		593
Commercial and industrial	1,463		1,463	1,077		1,077
Agricultural						
Other						
Total non-accrual loans	$ 15,133	$	$ 15,133	$ 21,336	$	$ 21,336

	As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$ 7,055	$	$ 7,055
Construction/land development	2,226		2,226
Agricultural	178		178
Residential real estate loans			
Residential 1-4 family	12,867		12,867
Multifamily residential			
Total real estate	22,326		22,326
Consumer	1,369		1,369
Commercial and industrial	1,598		1,598
Agricultural			
Other	1,203		1,203
Total non-accrual loans	$ 26,496	$	$ 26,496

If the non-accrual non-covered loans had been accruing interest in accordance with the original terms of their respective agreements, interest income of approximately $1.8 million for the year ended December 31, 2015, $1.3 million in 2014, and $1.2 million in 2013 would have been recorded. Interest income recognized on the non-accrual non-covered loans for the years ended December 31, 2015, 2014 and 2013 was considered immaterial.

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Table 17 shows the summary of accruing past due loans 90 days or more as of December 31, 2015, 2014, 2013, 2012 and 2011:

Table 17: Total Loans Accruing Past Due 90 Days or More

	As of December 31, 2015			As of December 31, 2014		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 9,247	$	$ 9,247	$ 5,880	$ 9,029	$ 14,909
Construction/land development	4,176		4,176	734	4,376	5,110
Agricultural	30		30	34	72	106
Residential real estate loans						
Residential 1-4 family	3,915	3,292	7,207	4,128	7,597	11,725
Multifamily residential	1		1	691		691
Total real estate	17,369	3,292	20,661	11,467	21,074	32,541
Consumer	46		46	579		579
Commercial and industrial	6,430		6,430	2,825	1,387	4,212
Other					32	32
Total loans accruing past due 90 days or more	$ 23,845	$ 3,292	$ 27,137	$ 14,871	$ 22,493	$ 37,364

	As of December 31, 2013			As of December 31, 2012		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)					
Real estate:						
Commercial real estate loans						
Non-farm/non-residential	$ 7,914	$ 15,287	$ 23,201	$ 1,437	$ 32,227	$ 33,664
Construction/land development	4,879	8,410	13,289	1,296	14,962	16,258
Agricultural		162	162		548	548
Residential real estate loans						
Residential 1-4 family	6,492	10,177	16,669	2,589	20,005	22,594
Multifamily residential	1	357	358			
Total real estate	19,286	34,393	53,679	5,322	67,742	73,064
Consumer	100		100	95		95
Commercial and industrial	3,755	825	4,580	520	3,121	3,641

Other		624	624			
Total loans accruing past due 90 days or more	$ 23,141	$ 35,842	$ 58,983	$ 5,937	$ 70,863	$ 76,800

	As of December 31, 2011		
	Not Covered by Loss Share	Covered by FDIC Loss Share	Total
	(In thousands)		
Real estate:			
Commercial real estate loans			
Non-farm/non-residential	$	$ 34,765	$ 34,765
Construction/land development		42,808	42,808
Agricultural		328	328
Residential real estate loans			
Residential 1-4 family	750	35,452	36,202
Multifamily residential	92		92
Total real estate	842	113,353	114,195
Consumer	132	265	397
Commercial and industrial	19	4,995	5,014
Total loans accruing past due 90 days or more	$ 993	$ 118,613	$ 119,606

Our total covered loans accruing past due 90 days or more and non-accrual covered loans to total covered loans was 5.3% and 9.4% as of December 31, 2015 and 2014, respectively.

Allowance for Loan Losses

Overview. The allowance for loan losses for non-covered loans is maintained at a level which our management believes is adequate to absorb all probable losses on loans in the loan portfolio. The amount of the allowance is affected by: (i) loan charge-offs, which decrease the allowance; (ii) recoveries on loans previously charged off, which increase the allowance; and (iii) the provision of possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for our management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of allowance for loan losses for non-covered loans, our earnings could be adversely affected.

As we evaluate the allowance for loan losses for non-covered loans, we categorize it as follows: (i) specific allocations; (ii) allocations for criticized and classified assets not individually evaluated for impairment; (iii) general allocations; and (iv) miscellaneous allocations.

Specific Allocations. As a general rule, if a specific allocation is warranted, it is the result of an analysis of a previously classified credit or relationship. Typically, when it becomes evident through the payment history or a financial statement review that a loan or relationship is no longer supported by the cash flows of the asset and/or borrower and has become collateral dependent, we will use appraisals or other collateral analysis to determine if collateral impairment has occurred. The amount or likelihood of loss on this credit may not yet be evident, so a charge-off would not be prudent. However, if the analysis indicates that an impairment has occurred, then a specific allocation will be determined for this loan. If our existing appraisal is outdated or the collateral has been subject to significant market changes, we will obtain a new appraisal for this impairment analysis. The majority of our impaired loans are collateral dependent at the present time, so third-party appraisals were used to determine the necessary impairment for these loans. Cash flow available to service debt was used for the other impaired loans. This analysis is performed each quarter in connection with the preparation of the analysis of the adequacy of the allowance for loan losses for non-covered loans, and if necessary, adjustments are made to the specific allocation provided for a particular loan.

For collateral dependent loans, we do not consider an appraisal outdated simply due to the passage of time. However, if an appraisal is older than 13 months and if market or other conditions have deteriorated and we believe that the current market value of the property is not within approximately 20% of the appraised value, we will consider the appraisal outdated and order a new appraisal for the impairment analysis. The recognition of any provision or related charge-off on a collateral dependent loan is either through annual credit analysis or, many times, when the relationship becomes delinquent. If the borrower is not current, we will update our credit and cash flow analysis to determine the borrower s repayment ability. If we determine this ability does not exist and it appears that the collection of the entire principal and interest is not likely, then the loan could be placed on non-accrual status. In any case, loans are classified as non-accrual no later than 105 days past due. If the loan requires a quarterly impairment analysis, this analysis is completed in conjunction with the completion of the analysis of the adequacy of the allowance for loan losses for non-covered loans. Any exposure identified through the impairment analysis is shown as a specific reserve on the individual impairment. If it is determined that a new appraisal is required, it is ordered and will be taken into consideration during completion of the next impairment analysis.

In estimating the net realizable value of the collateral, management may deem it appropriate to discount the appraisal based on the applicable circumstances. In such case, the amount charged off may result in loan principal outstanding being below fair value as presented in the appraisal.

Between the receipt of the original appraisal and the updated appraisal, we monitor the loan s repayment history. If the loan is over $1.0 million or greater or the total loan relationship is $2.0 million or greater, our policy requires an annual credit review. Our policy requires financial statements from the borrowers and guarantors at least annually. In addition, we calculate the global repayment ability of the borrower/guarantors at least annually.

As a general rule, when it becomes evident that the full principal and accrued interest of a loan may not be collected, or by law at 105 days past due, we will reflect that loan as non-performing. It will remain non-performing until it performs in a manner that it is reasonable to expect that we will collect the full principal and accrued interest.

When the amount or likelihood of a loss on a loan has been determined, a charge-off should be taken in the period it is determined. If a partial charge-off occurs, the quarterly impairment analysis will determine if the loan is still impaired, and thus continues to require a specific allocation.

Allocations for Criticized and Classified Assets not Individually Evaluated for Impairment. We establish allocations for loans rated special mention through loss in accordance with the guidelines established by the regulatory agencies. A percentage rate is applied to each loan category to determine the level of dollar allocation.

General Allocations. We establish general allocations for each major loan category. This section also includes allocations to loans, which are collectively evaluated for loss such as residential real estate, commercial real estate, consumer loans and commercial and industrial loans that fall below $2.0 million. The allocations in this section are based on a historical review of loan loss experience and past due accounts. We give consideration to trends, changes in loan mix, delinquencies, prior losses, and other related information.

Miscellaneous Allocations. Allowance allocations other than specific, classified, and general are included in our miscellaneous section.

Loans Collectively Evaluated for Impairment. Non-covered loans collectively evaluated for impairment increased by approximately $1.77 billion from $4.51 billion at December 31, 2014 to $6.28 billion at December 31, 2015. The percentage of the allowance for loan losses for non-covered loans allocated to non-covered loans collectively evaluated for impairment to the total non-covered loans collectively evaluated for impairment increased from 0.96% at December 31, 2014 to 0.99% at December 31, 2015. This increase is the result of the normal changes associated with the calculation of the allocation of the allowance for loan losses and includes routine changes from the previous year end reporting period such as organic loan growth, unallocated allowance, asset quality and net charge-offs.

Charge-offs and Recoveries. Total non-covered charge-offs increased to $14.8 million for the year ended December 31, 2015, compared to $11.3 million for the same period in 2014. Total non-covered recoveries increased to $3.4 million for the year ended December 31, 2015, compared to $3.0 million for the same period in 2014. For the year ended December 31, 2015, the net charge-offs were $9.3 million for Arkansas, $1.6 million for Florida, and $367,000 for Alabama, respectively, equaling a net charge-off position of $11.3 million.

The net loans charged off for non-covered loans for the years ended December 31, 2015, 2014 and 2013 were $11.3 million, $8.3 million and $10.3 million. For the years ended December 31, 2015, 2014 and 2013, approximately $9.3 million, $5.1 million and $8.5 million, respectively, of the net charge-offs are from our Arkansas market. For the years ended December 31, 2015, 2014 and 2013, approximately $1.6 million, $2.9 million and $1.8 million, respectively, of the net charge-offs are from our Florida market. The remaining $367,000, $347,000 and $22,000 relates to net charge-offs on loans in our Alabama market for the years ended December 31, 2015, 2014 and 2013, respectively.

During 2015, there were $14.8 million in non-covered charge-offs and $3.4 million in non-covered recoveries. While these charge-offs and recoveries consisted of many relationships, there were no individual relationships consisting of charge-offs greater than $1.0 million.

During 2014, there were $11.3 million in charge-offs and $3.0 million in recoveries. While the charge-offs and recoveries consisted of many relationships, there was one individual relationship consisting of a charge-off greater than $1.0 million. The relationship is a Florida relationship consisting of one non-farm/non-residential real estate loan for approximately $1.0 million of debt. The total amount of the charge-off related to this relationship was $1.0 million during 2014.

We have not charged off an amount less than what was determined to be the fair value of the collateral as presented in the appraisal, less estimated costs to sell (for collateral dependent loans), for any period presented. Loans partially charged-off are placed on non-accrual status until it is proven that the borrower s repayment ability with respect to the remaining principal balance can be reasonably assured. This is usually established over a period of 6-12 months of timely payment performance.

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Table 18 shows the allowance for loan losses, charge-offs and recoveries for non-covered loans as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011.

Table 18: Analysis of Allowance for Loan Losses for Non-Covered Loans

	As of December 31,				
	2015	2014	2013	2012	2011
	(Dollars in thousands)				
Balance, beginning of year	$ 52,471	$ 39,022	$ 45,170	$ 52,129	$ 53,348
Loans charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	3,923	2,322	4,054	1,384	3,850
Construction/land development	582	973	998	1,086	3,590
Agricultural					226
Residential real estate loans:					
Residential 1-4 family	4,174	2,783	3,972	4,328	2,005
Multifamily residential	379	266	2,336	95	1,294
Total real estate	9,058	6,344	11,360	6,893	10,965
Consumer	567	355	926	865	2,464
Commercial and industrial	2,638	2,166	537	1,342	571
Agricultural					
Other	2,508	2,440	1,374	1,693	695
Total loans charged off	14,771	11,305	14,197	10,793	14,695
Recoveries of loans previously charged off					
Real estate:					
Commercial real estate loans:					
Non-farm/non-residential	739	242	2,070	970	212
Construction/land development	198	342	34	9	827
Agricultural			1	234	66
Residential real estate loans:					
Residential 1-4 family	812	912	880	674	510
Multifamily residential	70	37	102	4	1,967
Total real estate	1,819	1,533	3,087	1,891	3,582
Consumer	61	246	145	134	183
Commercial and industrial	802	306	72	124	5,817
Agricultural					
Other	766	909	556	435	394
Total recoveries	3,448	2,994	3,860	2,584	9,976
Net loans charged off (recovered)	11,323	8,311	10,337	8,209	4,719

Provision for loan losses for non-covered loans	24,166	21,760	4,189	1,250	3,500
Reclass of provision for loan losses attributable to FDIC loss share agreements	1,322				
Balance, end of year	$ 66,636	$ 52,471	$ 39,022	$ 45,170	$ 52,129
Net charge-offs (recoveries) on loans not covered by loss share to average non-covered loans	0.20%	0.19%	0.39%	0.40%	0.26%
Allowance for loan losses for non-covered loans to total non-covered loans(1)	1.01	1.09	0.93	1.94	2.96
Allowance for loan losses for non-covered loans to net charge-offs (recoveries)	589	631	377	550	1,105

(1) See Management s Discussion and Analysis of Financial Condition and Results of Operations Table 32, for additional information on non-GAAP tabular disclosure.

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Allocated Allowance for Loan Losses for Non-Covered Loans. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses for non-covered loans. While the allowance is allocated to various loan categories in assessing and evaluating the level of the allowance, the allowance is available to cover charge-offs incurred in all loan categories. Because a portion of our portfolio has not matured to the degree necessary to obtain reliable loss data from which to calculate estimated future losses, the unallocated portion of the allowance is an integral component of the total allowance. Although unassigned to a particular credit relationship or product segment, this portion of the allowance is vital to safeguard against the imprecision inherent in estimating credit losses.

The changes for the years ended December 31, 2015 and 2014 in the allocation of the allowance for loan losses for non-covered loans for the individual types of loans are primarily associated with changes in the ASC 310 calculations, both individual and aggregate, and changes in the ASC 450 calculations. These calculations are affected by changes in individual loan impairments, changes in asset quality, net charge-offs during the period and normal changes in the outstanding loan portfolio, as well any changes to the general allocation factors due to changes within the actual characteristics of the loan portfolio.

Table 19 presents the allocation of allowance for loan losses for non-covered loans as of December 31, 2015, 2014, 2013, 2012 and 2011.

Table 19: Allocation of Allowance for Loan Losses for Non-Covered Loans

	As of December 31,									
	2015		2014		2013		2012		2011	
	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)	Allowance Amount	% of loans(1)
	(Dollars in thousands)									
Real estate:										
Commercial real estate loans:										
Non-farm/non-residential	$ 26,326	45.1%	$ 16,872	41.3%	$ 14,848	41.4%	$ 19,781	43.7%	$ 20,160	39.7%
Construction/land development	10,656	14.4	8,116	14.5	6,282	13.4	5,816	10.9	7,945	20.6
Agricultural	468	1.1	355	1.5	252	1.9	193	1.4	208	1.6
Residential real estate loans:										
Residential 1-4 family	10,147	17.2	9,909	20.0	6,072	21.8	10,467	23.6	9,586	19.9
Multifamily residential	2,241	6.5	3,537	5.2	2,817	5.1	3,346	5.6	2,610	3.2
Total real estate	49,838	84.3	38,789	82.5	30,271	83.6	39,603	85.2	40,509	85.0
Consumer	544	0.8	763	1.2	632	1.7	894	1.6	1,780	2.2
Commercial and industrial	9,305	12.9	5,950	13.9	1,933	12.2	3,870	11.0	6,308	10.0
Agricultural	4,463	1.0	5,035	1.0	1,931	0.9	394	0.8	1,478	1.2

Other		1.0		1.4		1.6		1.4		1.6
Unallocated	2,486		1,934		4,255		409		2,054	
Total	$ 66,636	100.0%	$ 52,471	100.0%	$ 39,022	100.0%	$ 45,170	100.0%	$ 52,129	100.0%

(1) Percentage of loans in each category to loans receivable not covered by loss share.

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Allowance for Loan Losses for Covered Loans

Allowance for loan losses for covered loans were $2.6 million, $2.5 million and $4.8 million at December 31, 2015, 2014 and 2013, respectively.

Total charge-offs for covered loans decreased to $1.2 million for the year ended December 31, 2015, compared to $2.8 million for the same period in 2014. Total recoveries for covered loans decreased to $94,000 for the year ended December 31, 2015, compared to $734,000 for the same period in 2014.

Total charge-offs for covered loans decreased to $2.8 million for the year ended December 31, 2014, compared to $5.3 million for the same period in 2013. Total recoveries for covered loans increased to $734,000 for the year ended December 31, 2014, compared to $200,000 for the same period in 2013.

There were $998,000, $904,000 and $991,000 of provision for loan losses taken on covered loans during the year ended December 31, 2015, 2014 and 2013, respectively.

Table 20 shows the allowance for loan losses, charge-offs and recoveries for covered loans as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011.

Table 20: Analysis of Allowance for Loan Losses for Covered Loans

	As of December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(Dollars in thousands)				
Balance, beginning of year	$ 2,540	$ 4,793	$ 5,462	$	$
Loans charged off	(1,181)	(2,772)	(5,314)	(2,042)	
Recoveries of loans previously charged off	94	734	200	2	
Net loans charged off (recovered)	(1,087)	(2,038)	(5,114)	(2,040)	
Provision for loan losses forecasted outside of loss share		1,184			
Provision for loan losses before benefit attributable to FDIC loss share agreements	2,457	(1,399)	4,445	7,502	
Benefit attributable to FDIC loss share agreements	(1,495)	1,119	(3,454)	(6,002)	
Net provision for loan losses for covered loans	998	904	991	1,500	
Reclass of provision for loan losses attributable to FDIC loss share agreements	(1,322)				
Increase (decrease) in FDIC indemnification asset	1,459	(1,119)	3,454	6,002	
Balance, end of year	$ 2,588	$ 2,540	$ 4,793	$ 5,462	$

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Investment Securities

Our securities portfolio is the second largest component of earning assets and provides a significant source of revenue. Securities within the portfolio are classified as held-to-maturity, available-for-sale, or trading based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The estimated effective duration of our securities portfolio was 2.6 years as of December 31, 2015.

As of December 31, 2015 and 2014 we had $309.0 million and $356.8 million of held-to-maturity securities, respectively. Of the $309.0 million of held-to-maturity securities, $7.4 million were invested in U.S. Government-sponsored enterprises, $134.2 million were invested in mortgage-backed securities and $167.5 million were invested in state and political subdivisions as of December 31, 2015. Of the $356.8 million of held-to-maturity securities, $4.7 million were invested in U.S. Government- sponsored enterprises, $161.1 million were invested in mortgage-backed securities and $191.0 million were invested in state and political subdivisions as of December 31, 2014.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity as other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale. Available-for-sale securities were $1.21 billion and $1.07 billion as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, $565.3 million, or 46.9%, of our available-for-sale securities were invested in mortgage-backed securities, compared to $503.1 million, or 47.1%, of our available-for-sale securities as of December 31, 2014. To reduce our income tax burden, $219.1 million, or 18.2%, of our available-for-sale securities portfolio as of December 31, 2015, was primarily invested in tax-exempt obligations of state and political subdivisions, compared to $176.6 million, or 16.6%, of our available-for-sale securities as of December 31, 2014. Also, we had approximately $368.5 million, or 30.5%, invested in obligations of U.S. Government-sponsored enterprises as of December 31, 2015, compared to $336.1 million, or 31.5%, of our available-for-sale securities as of December 31, 2014.

Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates. Based on evaluation of available evidence, we believe the declines in fair value for these securities are temporary. It is our intent to hold these securities to recovery. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other than temporary impairment is identified.

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Table 21 presents the carrying value and fair value of investment securities as of December 31, 2015, 2014, 2013, 2012 and 2011.

Table 21: Investment Securities

	As of December 31,							
	2015				2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
Available-for-sale								
U.S. government-sponsored enterprises	$ 367,911	$ 1,875	$ (1,246)	$ 368,540	$ 333,880	$ 2,467	$ (269)	$ 336,078
Residential mortgage-backed securities	254,331	1,580	(1,356)	254,755	188,956	2,423	(501)	190,878
Commercial mortgage-backed securities	311,279	994	(1,713)	310,560	311,336	1,812	(944)	312,204
State and political subdivisions	211,546	7,723	(151)	219,118	170,207	6,522	(88)	176,641
Other securities	54,440	191	(1,024)	53,607	51,375	437	(326)	51,486
Total	$ 1,199,707	$ 12,363	$ (5,490)	$ 1,206,580	$ 1,055,754	$ 13,661	$ (2,128)	$ 1,067,287
Held-to-maturity								
U.S. government-sponsored enterprises	$ 7,395	$ 37	$ (17)	$ 7,415	$ 4,724	$ 2	$ (11)	$ 4,715
Residential mortgage-backed securities	92,585	250	(282)	92,553	115,159	384	(145)	115,398
Commercial mortgage-backed securities	41,579	155	(42)	41,692	45,892	196	(48)	46,040
State and political subdivisions	167,483	4,870	(69)	172,284	191,015	5,178	(74)	196,119
Total	$ 309,042	$ 5,312	$ (410)	$ 313,944	$ 356,790	$ 5,760	$ (278)	$ 362,272

As of December 31, 2013

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
Available-for-sale				
U.S. government-sponsored enterprises	$ 467,535	$ 1,330	$ (5,324)	$ 463,541
Residential mortgage-backed securities	162,947	1,813	(1,275)	163,485
Commercial mortgage-backed securities	299,563	1,530	(2,990)	298,103
State and political subdivisions	196,472	3,085	(4,045)	195,512
Other securities	55,780	216	(1,153)	54,843
Total	$ 1,182,297	$ 7,974	$ (14,787)	$ 1,175,484
Held-to-maturity				
State and political subdivisions	$ 114,621	$ 361	$ (1,081)	$ 113,901
Total	$ 114,621	$ 361	$ (1,081)	$ 113,901

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Table 22 reflects the amortized cost and estimated fair value of debt securities as of December 31, 2015, by contractual maturity and the weighted average yields (for tax-exempt obligations on a fully taxable equivalent basis) of those securities. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Table 22: Maturity Distribution of Investment Securities

	As of December 31, 2015					
	1 Year or Less	1 Year Through 5 Years	5 Years Through 10 Years	Over 10 Years	Total Amortized Cost	Total Fair Value
	(Dollars in thousands)					
Available-for-sale						
U.S. Government-sponsored enterprises	$ 165,486	$ 133,265	$ 47,061	$ 22,099	$ 367,911	$ 368,540
Residential mortgage-backed securities	45,566	124,561	65,999	18,405	254,531	254,755
Commercial mortgage-backed securities	19,517	230,742	57,013	4,007	311,279	310,560
State and political subdivisions	41,741	143,857	19,323	6,625	211,546	219,118
Other securities	24,482	13,509	13,159	3,290	54,440	53,607
Total	$ 296,792	$ 645,934	$ 202,555	$ 54,426	$ 1,199,707	$ 1,206,580
Percentage of total amortized cost	24.7%	53.9%	16.9%	4.5%	100.0%	
Weighted average yield	2.1%	2.6%	2.3%	2.7%	2.4%	
Held-to-maturity						
U.S. Government-sponsored enterprises	$ 474	$ 2,679	$ 3,353	$ 889	$ 7,395	$ 7,415
Residential mortgage-backed securities	18,017	49,808	19,595	5,165	92,585	92,553
Commercial mortgage-backed securities	1,871	25,763	12,274	1,671	41,579	41,692
State and political subdivisions	50,406	78,156	10,619	28,302	167,483	172,284
Total	$ 70,768	$ 156,406	$ 45,841	$ 36,027	$ 309,042	$ 313,944
Percentage of total amortized cost	22.9%	50.6%	14.8%	11.7%	100.0%	
Weighted average yield	4.1%	3.5%	2.9%	6.0%	3.9%	

Deposits

Our deposits averaged $5.96 billion for the year ended December 31, 2015, and $5.31 billion for 2014. Total deposits increased $1.02 billion, or 18.7%, to $6.44 billion as of December 31, 2015, from $5.42 billion as of December 31, 2014. Deposits are our primary source of funds. We offer a variety of products designed to attract and retain deposit customers. Those products consist of checking accounts, regular savings deposits, NOW accounts, money market accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. In addition, we obtain deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions.

Our policy also permits the acceptance of brokered deposits. From time to time, when appropriate in order to fund strong loan demand, we accept brokered time deposits, generally in denominations of less than $250,000, from a regional brokerage firm, and other national brokerage networks. Additionally, we participate in the Certificates of Deposit Account Registry Service (CDARS), which provides for reciprocal (two-way) transactions among banks for the purpose of giving our customers the potential for FDIC insurance of up to $50.0 million. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are our customer relationships that management views as core funding. We also participate in the One-Way Buy Insured Cash Sweep (ICS) service, which provides for one-way buy transactions among banks for the purpose of purchasing cost-effective floating-rate funding without collateralization or stock purchase requirements. Management believes these sources represent a reliable and cost efficient alternative funding source. However, to the extent that our condition or reputation deteriorates, or to the extent that there are significant changes in market interest rates which we do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.

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Table 23 reflects the classification of the brokered deposits as of December 31, 2015 and 2014.

Table 23: Brokered Deposits

	December 31, 2015	December 31, 2014
	(In thousands)	
Time Deposits	$ 55,149	$ 5,000
CDARS	26,920	28,551
Insured Cash Sweep Transaction Accounts	117,185	
Total Brokered Deposits	$ 199,254	$ 33,551

The interest rates paid are competitively priced for each particular deposit product and structured to meet our funding requirements. We will continue to manage interest expense through deposit pricing. We may allow higher rate deposits to run off during periods of limited loan demand. We believe that additional funds can be attracted and deposit growth can be realized through deposit pricing if we experience increased loan demand or other liquidity needs.

The Federal Reserve Board sets various benchmark rates, including the Federal Funds rate, and thereby influences the general market rates of interest, including the deposit and loan rates offered by financial institutions. The Federal Funds rate, which is the cost to banks of immediately available overnight funds, was lowered on December 16, 2008 to a historic low of 0.25% to 0% where it remained until December 16, 2015 when the rate was increased slightly to 0.50% to 0.25%.

Table 24 reflects the classification of the average deposits and the average rate paid on each deposit category which is in excess of 10 percent of average total deposits, for the years ended December 31, 2015, 2014, and 2013.

Table 24: Average Deposit Balances and Rates

	Years Ended December 31,					
	2015		2014		2013	
	Average	Average	Average	Average	Average	Average
	(Dollars in thousands)					
Non-interest-bearing transaction accounts	$ 1,358,905	%	$ 1,101,923	%	$ 761,540	%
Interest-bearing transaction accounts	2,789,346	0.22	2,465,881	0.20	1,697,840	0.19
Savings deposits	429,399	0.06	373,448	0.07	241,657	0.08
Time deposits:						
$100,000 or more	780,815	0.53	735,404	0.65	551,757	0.67
Other time deposits	600,747	0.42	637,869	0.43	486,489	0.54
Total	$ 5,959,212	0.22%	$ 5,314,525	0.24%	$ 3,739,283	0.26%

Table 25 presents our maturities of large denomination time deposits as of December 31, 2015 and 2014.

Table 25: Maturities of Large Denomination Time Deposits ($100,000 or more)

	As of December 31,			
	2015		2014	
	Balance	Percent	Balance	Percent
	(Dollars in thousands)			
Maturing				
Three months or less	$ 223,227	25.2%	$ 196,672	29.2%
Over three months to six months	162,015	18.3	144,204	21.4
Over six months to 12 months	186,963	21.1	207,302	30.8
Over 12 months	313,057	35.4	125,143	18.6
Total	$ 885,262	100.0%	$ 673,321	100.0%

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Securities Sold Under Agreements to Repurchase

We enter into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. The amounts advanced under resale agreements and the amounts borrowed under repurchase agreements are carried on the balance sheet at the amount advanced. Interest incurred on repurchase agreements is reported as interest expense. Securities sold under agreements to repurchase decreased $48.1 million, or 27.2%, from $176.5 million as of December 31, 2014 to $128.4 million as of December 31, 2015.

FHLB Borrowings

Our FHLB borrowed funds, which are secured by our loan portfolio, were $1.41 billion and $698.0 million at December 31, 2015 and 2014, respectively. At December 31, 2015, all $1.41 billion of the outstanding balance were issued as long-term advances. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were issued as short-term and long-term advances, respectively. Our remaining FHLB borrowing capacity was $581.9 million and $905.6 million as of December 31, 2015 and 2014, respectively. Because our year end borrowing capacity was calculated based upon September 30, 2015 loan balances, we anticipate receiving additional borrowing capacity during the first quarter of 2016 of approximately $222.6 million as a result of our fourth quarter of 2015 organic loan growth and acquisition of FBBI. Maturities of borrowings as of December 31, 2015 include: 2016 $16.0 million; 2017 $960.5 million; 2018 $169.3 million; 2019 $128.2 million; 2020 $131.4 million; after 2020 $493,000. Expected maturities will differ from contractual maturities because FHLB may have the right to call or we may have the right to prepay certain obligations.

Subordinated Debentures

Subordinated debentures, which consist of guaranteed payments on trust preferred securities, were $60.8 million as of both December 31, 2015 and 2014.

The trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment subject to certain limitations. Distributions on these securities are included in interest expense. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our subordinated debentures, the sole asset of each trust. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the subordinated debentures held by the trust. We wholly own the common securities of each trust. Each trust s ability to pay amounts due on the trust preferred securities is solely dependent upon our making payment on the related subordinated debentures. Our obligations under the subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by us of each respective trust s obligations under the trust securities issued by each respective trust.

Stockholders Equity

Stockholders equity was $1.20 billion at December 31, 2015 compared to $1.02 billion at December 31, 2014, an increase of 18.2%. The increase in stockholders equity is primarily associated with the $100.6 million increase in retained earnings plus $83.8 million of common stock issued to the FBBI shareholders offset by the $2.8 million of comprehensive losses. As of December 31, 2015 and 2014, our equity to asset ratio was 12.9% and 13.7% respectively. Book value per share was $17.11 at December 31, 2015 compared to $15.03 at December 31, 2014, a 13.8% increase.

Common Stock Cash Dividends. We declared cash dividends on our common stock of $0.55, $0.35 and $0.29 per share for the years ended December 31, 2015, 2014 and 2013, respectively. The common stock dividend payout ratio for the year ended December 31, 2015, 2014 and 2013 was 27.19%, 20.49% and 25.51%, respectively.

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Stock Repurchase Program. During 2015, we utilized a portion of our previously approved stock repurchase program. This program authorized the repurchase of 2,376,000 shares of our common stock. During the first quarter of 2015, we repurchased a total of 67,332 shares with a weighted-average stock price of $29.89 per share. No shares were repurchased after the first quarter of 2015. The 2015 earnings were used to fund these repurchases. Shares repurchased to date under the program total 1,578,228 shares. The remaining balance available for repurchase is 797,772 shares at December 31, 2015. We did not utilize a portion of our previously approved stock repurchase program during 2014 or 2013. During the first part of 2016, we have again utilized a portion of this stock repurchase program.

Liquidity and Capital Adequacy Requirements

Parent Company Liquidity. The primary sources for payment of our operating expenses, and dividends are current cash on hand ($68.7 million as of December 31, 2015), dividends received from our bank subsidiary and a $20.0 million unfunded line of credit with another financial institution.

Risk-Based Capital. We, as well as our bank subsidiary, are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and other discretionary actions by regulators that, if enforced, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators as to components, risk weightings and other factors.

In July 2013, the Federal Reserve Board and the other federal bank regulatory agencies issued a final rule to revise their risk-based and leverage capital requirements and their method for calculating risk-weighted assets (Basel III). Basel III became effective for us and our bank subsidiary on January 1, 2015.

Basel III applies to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies. Among other things, Basel III establishes a new minimum and well-capitalized common equity Tier 1 capital requirement of 4.5% and 6.5% of risk-weighted assets, respectively. It also raises the minimum and well-capitalized Tier 1 risk-based capital requirement to 6% and 8% of risk-weighted assets, respectively. Basel III changes assigned higher risk weightings (150%) to exposures that are more than 90 days past due or are on non-accrual status and certain high-volatility commercial real estate (HVCRE) facilities that finance the acquisition, development or construction of real property.

Basel III permanently grandfathers trust preferred securities and other non-qualifying capital instruments that were issued and outstanding as of May 19, 2010 in the Tier 1 capital of bank holding companies with total consolidated assets of less than $15.00 billion as of December 31, 2009.

Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2015 and 2014, we met all regulatory capital adequacy requirements to which we were subject.

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Table 26 presents our risk-based capital ratios as of December 31, 2015 and 2014.

Table 26: Risk-Based Capital

	As of December 31, 2015	As of December 31, 2014
	(Dollars in thousands)	
Tier 1 capital		
Stockholders equity	$ 1,199,757	$ 1,015,292
Goodwill and core deposit intangibles, net	(385,957)	(345,762)
Unrealized (gain) loss on available-for-sale securities	(4,285)	(7,009)
Deferred tax assets		
Total common equity Tier 1 capital	809,515	662,521
Qualifying trust preferred securities	59,000	59,000
Total Tier 1 capital	868,515	721,521
Tier 2 capital		
Qualifying allowance for loan losses	69,224	55,011
Total Tier 2 capital	69,224	55,011
Total risk-based capital	$ 937,739	$ 776,532
Average total assets for leverage ratio	$ 8,766,685	$ 7,000,248
Risk weighted assets	$ 7,710,439	$ 5,747,191
Ratios at end of period		
Common equity Tier 1 capital	10.50%	N/A
Leverage ratio	9.91	10.31%
Tier 1 risk-based capital	11.26	12.55
Total risk-based capital	12.16	13.51
Minimum guidelines		
Common equity Tier 1 capital	4.50%	N/A
Leverage ratio	4.00	4.00%
Tier 1 risk-based capital	6.00	4.00
Total risk-based capital	8.00	8.00
Well-capitalized guidelines		
Common equity Tier 1 capital	6.50%	N/A
Leverage ratio	5.00	5.00%
Tier 1 risk-based capital	8.00	6.00
Total risk-based capital	10.00	10.00

As of the most recent notification from regulatory agencies, our bank subsidiary was well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized , we, as well as our banking subsidiary, must maintain minimum common equity Tier 1 capital, leverage, Tier 1 risk-based capital, and total risk-based capital ratios as set forth in the table. There are no conditions or events since that notification that we believe have changed the bank subsidiary s category.

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Table 27 presents actual capital amounts and ratios as of December 31, 2015 and 2014, for our bank subsidiary and us.

Table 27: Capital and Ratios

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2015						
Common equity Tier 1 capital ratios:						
Home BancShares	$ 809,515	10.50%	$ 346,935	4.50%	$ N/A	N/A%
Centennial Bank	782,100	10.18	345,722	4.50	499,376	6.50
Leverage ratios:						
Home BancShares	$ 868,515	9.91%	$ 350,561	4.00%	$ N/A	N/A%
Centennial Bank	782,100	8.93	350,325	4.00	437,906	5.00
Tier 1 capital ratios:						
Home BancShares	$ 868,515	11.26%	$ 462,797	6.00%	$ N/A	N/A%
Centennial Bank	782,100	10.18	460,963	6.00	614,617	8.00
Total risk-based capital ratios:						
Home BancShares	$ 937,739	12.16%	$ 616,934	8.00%	$ N/A	N/A%
Centennial Bank	851,324	11.08	614,674	8.00	768,343	10.00
As of December 31, 2014						
Leverage ratios:						
Home BancShares	$ 721,521	10.31%	$ 279,931	4.00%	$ N/A	N/A%
Centennial Bank	653,611	9.25	282,643	4.00	353,303	5.00
Tier 1 capital ratios:						
Home BancShares	$ 721,521	12.55%	$ 229,967	4.00%	$ N/A	N/A%
Centennial Bank	653,611	11.41	229,136	4.00	343,704	6.00
Total risk-based capital ratios:						
Home BancShares	$ 776,532	13.51%	$ 459,826	8.00%	$ N/A	N/A%
Centennial Bank	708,622	12.38	457,914	8.00	572,393	10.00

Off-Balance Sheet Arrangements and Contractual Obligations

In the normal course of business, we enter into a number of financial commitments. Examples of these commitments include but are not limited to operating lease obligations, FHLB advances, lines of credit, subordinated debentures, unfunded loan commitments and letters of credit.

Commitments to extend credit and letters of credit are legally binding, conditional agreements generally having certain expiration or termination dates. These commitments generally require customers to maintain certain credit standards and are established based on management s credit assessment of the customer. The commitments may expire without being drawn upon. Therefore, the total commitment does not necessarily represent future requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company had total outstanding letters of credit amounting to $24.3 million and $23.2 million at December 31, 2015 and 2014, respectively, with maturities ranging from currently due to four years.

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Table 28 presents the funding requirements of our most significant financial commitments, excluding interest, as of December 31, 2015.

Table 28: Funding Requirements of Financial Commitments

	Payments Due by Period				
	Less than One Year	One-Three Years	Three-Five Years	Greater than Five Years	Total
	(In thousands)				
Operating lease obligations	$ 3,457	$ 7,671	$ 6,212	$ 18,540	$ 35,880
FHLB advances by contractual maturity	16,027	1,129,836	259,589	493	1,405,945
Subordinated debentures				60,826	60,826
Loan commitments	578,747	341,973	289,470	220,180	1,430,370
Letters of credit	20,903	3,427	9		24,338

Non-GAAP Financial Measurements

Our accounting and reporting policies conform to generally accepted accounting principles in the United States (GAAP) and the prevailing practices in the banking industry. However, due to the application of purchase accounting from our significant number of historical acquisitions (especially Liberty), we believe certain non-GAAP measures and ratios that exclude the impact of these items are useful to the investors and users of our financial statements to evaluate our performance, including net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans.

Because of our significant number of historical acquisitions, our net interest margin and the allowance for loan losses for non-covered loans to total non-covered loans were impacted by accretion and amortization of the fair value adjustments recorded in purchase accounting. The accretion and amortization affect certain operating ratios as we accrete loan discounts to interest income and amortize premiums and discounts on time deposits to interest expense.

We had $1.69 billion of purchased non-covered loans, which includes $139.5 million of discount for credit losses on non-covered loans acquired, at December 31, 2015. We have $59.6 million and $79.9 million remaining of non-accretable discount for credit losses on non-covered loans acquired and accretable discount for credit losses on non-covered loans acquired, respectively, as of December 31, 2015. We had $1.77 billion of purchased non-covered loans, which includes $139.7 million of discount for credit losses on non-covered loans acquired, at December 31, 2014. For purchased credit-impaired financial assets, GAAP requires a discount embedded in the purchase price that is attributable to the expected credit losses at the date of acquisition, which is a different approach from non-purchased-credit-impaired assets. While the discount for credit losses on purchased non-covered loans is not available for credit losses on non-purchased non-covered loans, management believes it is useful information to show the same accounting as if applied to all loans, including those acquired in a business combination.

We believe these non-GAAP measures and ratios, when taken together with the corresponding GAAP measures and ratios, provide meaningful supplemental information regarding our performance. We believe investors benefit from referring to these non-GAAP measures and ratios in assessing our operating results and related trends, and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with GAAP. In Tables 29 through 32 below, we have provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure for the periods indicated:

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Table 29: Average Yield on Loans

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Interest income on loans receivable FTE	$ 344,885	$ 306,788	$ 199,063
Purchase accounting accretion	46,509	60,630	24,897
Non-GAAP interest income on loans receivable FTE	$ 298,376	$ 246,158	$ 174,166
Average loans	$ 5,732,315	$ 4,613,919	$ 3,005,470
Average purchase accounting loan discounts (1)	177,389	245,126	276,801
Average loans (non-GAAP)	$ 5,909,704	$ 4,859,045	$ 3,282,271
Average yield on loans (reported)	6.02%	6.65%	6.62%
Average contractual yield on loans (non-GAAP)	5.05	5.07	5.31

(1) Balance includes $139.5 million, $139.7 million and $174.6 million of discount for credit losses for non-covered loans acquired as of December 31, 2015, 2014 and 2013, respectively.

Table 30: Average Cost of Deposits

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Interest expense on deposits	$ 12,971	$ 12,796	$ 9,744
Amortization of time deposit (premiums)/discounts, net	1,101	(397)	360
Non-GAAP interest expense on deposits	$ 14,072	$ 12,399	$ 10,104
Average interest-bearing deposits	$ 4,600,307	$ 4,212,602	$ 2,977,743
Average unamortized CD (premium)/discount, net	(1,276)	(183)	(761)
Average interest-bearing deposits (non-GAAP)	$ 4,599,031	$ 4,212,419	$ 2,976,982
Average cost of deposits (reported)	0.28%	0.30%	0.33%
Average contractual cost of deposits (non-GAAP)	0.31	0.29	0.34

Table 31: Net Interest Margin

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Net interest income FTE	$ 363,422	$ 323,872	$ 206,927
Total purchase accounting accretion	47,610	60,233	25,257
Non-GAAP net interest income FTE	$ 315,812	$ 263,639	$ 181,670
Average interest-earning assets	$ 7,296,757	$ 6,030,104	$ 3,985,559
Average purchase accounting loan discounts(1)	177,389	245,126	276,801
Average interest-earning assets (non-GAAP)	$ 7,474,146	$ 6,275,230	$ 4,262,360
Net interest margin (reported)	4.98%	5.37%	5.19%
Net interest margin (non-GAAP)	4.23	4.20	4.26

(1) Balance includes $139.5 million, $139.7 million and $174.6 million of discount for credit losses for non-covered loans acquired as of December 31, 2015, 2014 and 2013, respectively.

Table 32: Allowance for Loan Losses for Non-Covered Loans to Total Non-Covered Loans

	As of December 31, 2015		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 4,893,699	$ 1,685,702	$ 6,579,401
Loan balance reported plus discount (B)	4,893,699	1,825,200	6,718,899
Allowance for loan losses for non-covered loans (C)	66,636		66,636
Discount for credit losses on non-covered loans acquired (D)		139,498	139,498
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 66,636	$ 139,498	$ 206,134
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.36%	N/A	1.01%
	N/A	7.64%	N/A

Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)			
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.07%

Note: Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

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	As of December 31, 2014		
	Non-Covered Loans	Purchased Non-Covered Loans	Total
	(Dollars in thousands)		
Loan balance reported (A)	$ 3,044,153	$ 1,773,161	$ 4,817,314
Loan balance reported plus discount (B)	3,044,153	1,912,881	4,957,034
Allowance for loan losses for non-covered loans (C)	52,471		52,471
Discount for credit losses on non-covered loans acquired (D)		139,720	139,720
Total allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired (E)	$ 52,471	$ 139,720	$ 192,191
Allowance for loan losses for non-covered loans to total non-covered loans (C/A)	1.72%	N/A	1.09%
Discount for credit losses on non-covered loans acquired to non-covered loans acquired plus discount for credit losses on non-covered loans acquired (D/B)	N/A	7.30%	N/A
Allowance for loan losses for non-covered loans plus discount for credit losses on non-covered loans acquired to total non-covered loans plus discount for credit losses on non-covered loans acquired (E/B)	N/A	N/A	3.88%

Note: Discount for credit losses on purchased credit impaired loans acquired are accounted for on a pool by pool basis and are not available to cover credit losses on non-acquired loans or other pools.

We had $399.4 million, $346.3 million, and $324.0 million total goodwill, core deposit intangibles and other intangible assets as of December 31, 2015, 2014 and 2013, respectively. Because of our level of intangible assets and related amortization expenses, management believes diluted earnings per common share excluding intangible amortization, tangible book value per common share, return on average assets excluding intangible amortization, return on average tangible common equity excluding intangible amortization and tangible common equity to tangible assets are useful in evaluating our company. These calculations, which are similar to the GAAP calculation of diluted earnings per common share, book value, return on average assets, return on average common equity, and common equity to assets, are presented in Tables 33 through 37, respectively.

Table 33: Diluted Earnings Per Common Share Excluding Intangible Amortization

	Years Ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
GAAP net income available to common stockholders	$ 138,199	$ 113,063	$ 66,520

Intangible amortization after-tax		2,479		2,814		2,202
Earnings available to common stockholders excluding intangible amortization	$	140,678	$	115,877	$	68,722
GAAP diluted earnings per common share	$	2.02	$	1.70	$	1.14
Intangible amortization after-tax		0.03		0.05		0.04
Diluted earnings per common share excluding intangible amortization	$	2.05	$	1.75	$	1.18

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Table 34: Tangible Book Value Per Common Share

	Years Ended December 31, 2015	2014	2013
	(Dollars in thousands, except per share data)		
Book value per common share: A/B	$ 17.11	$ 15.03	$ 12.92
Tangible book value per common share: (A-C-D)/B	11.41	9.90	7.94
(A) Total common equity	$ 1,199,757	$ 1,015,292	$ 840,955
(B) Common shares outstanding	70,121	67,571	65,082
(C) Goodwill	$ 377,983	$ 325,423	$ 301,736
(D) Core deposit and other intangibles	21,443	20,925	22,298

Table 35: Return on Average Assets Excluding Intangible Amortization

	Years Ended December 31, 2015	2014	2013
	(Dollars in thousands)		
Return on average assets: A/C	1.68%	1.63%	1.43%
Return on average assets excluding intangible amortization: B/(C-D)	1.79	1.75	1.52
(A) Net income	$ 138,199	$ 113,063	$ 66,520
Intangible amortization after-tax	2,479	2,814	2,202
(B) Earnings excluding intangible amortization	$ 140,678	$ 115,877	$ 68,722
(C) Average assets	$ 8,210,982	$ 6,952,415	$ 4,654,215
(D) Average goodwill, core deposits and other intangible assets	356,385	330,911	139,735

Table 36: Return on Average Tangible Common Equity Excluding Intangible Amortization

	Years Ended December 31, 2015	2014	2013
	(Dollars in thousands)		
Return on average common equity: A/C	12.77%	12.34%	11.27%
Return on average tangible common equity: B/(C-D)	19.37	19.80	15.26
(A) Net income available to common stockholders	$ 138,199	$ 113,063	$ 66,520
(B) Earnings available to common stockholders excluding intangible amortization	140,678	115,877	68,722
(C) Average common equity	1,082,585	916,287	590,064
	356,385	330,911	139,735

(D) Average goodwill, core deposits and other intangible assets

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Table 37: Tangible Common Equity to Tangible Assets

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in thousands)		
Equity to assets: B/A	12.92%	13.71%	12.35%
Tangible equity to tangible assets: (B-C-D)/(A-C-D)	9.00	9.48	7.97
(A) Total assets	$ 9,289,122	$ 7,403,272	$ 6,811,861
(B) Total equity	1,199,757	1,015,292	840,955
(C) Goodwill	377,983	325,423	301,736
(D) Core deposit and other intangibles	21,443	20,925	22,298

Table 38 presents selected unaudited quarterly financial information for 2015 and 2014.

Table 38: Quarterly Results

	2015 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 83,881	$ 90,311	$ 96,653	$ 106,591	$ 377,436
Total interest expense	4,810	4,862	5,562	6,490	21,724
Net interest income	79,071	85,449	91,091	100,101	355,712
Provision for loan losses	3,787	5,381	7,106	8,890	25,164
Net interest income after provision for loan losses	75,284	80,068	83,985	91,211	330,548
Total non-interest income	14,670	17,027	16,545	17,256	65,498
Total non-interest expense	40,713	43,250	44,593	48,999	177,555
Income before income taxes	49,241	53,845	55,937	59,468	218,491
Income tax expense	18,122	19,939	20,196	22,035	80,292
Net income	$ 31,119	$ 33,906	$ 35,741	$ 37,433	$ 138,199
Per share data:					
Basic earnings per common share	$ 0.46	$ 0.50	$ 0.53	$ 0.53	$ 2.02
Diluted earnings per common share	0.46	0.50	0.52	0.54	2.02
Diluted earnings per common share excluding intangible amortization	0.47	0.51	0.53	0.54	2.05

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	2014 Quarters				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
Income statement data:					
Total interest income	$ 81,840	$ 82,586	$ 83,401	$ 88,061	$ 335,888
Total interest expense	4,840	4,543	4,796	4,691	18,870
Net interest income	77,000	78,043	78,605	83,370	317,018
Provision for loan losses	6,938	6,115	4,241	5,370	22,664
Net interest income after provision for loan losses	70,062	71,928	74,364	78,000	294,354
Total non-interest income	12,181	11,539	10,831	10,211	44,762
Total non-interest expense	39,357	38,620	42,817	41,149	161,943
Income before income taxes	42,886	44,847	42,378	47,062	177,173
Income tax expense	15,549	16,418	15,007	17,136	64,110
Net income	$ 27,337	$ 28,429	$ 27,371	$ 29,926	$ 113,063
Per share data:					
Basic earnings per common share	$ 0.42	$ 0.44	$ 0.41	$ 0.44	$ 1.71
Diluted earnings per common share	0.42	0.43	0.41	0.44	1.70
Diluted earnings per common share excluding intangible amortization	0.43	0.44	0.42	0.46	1.75

Recent Accounting Pronouncements

See Note 27 to the Notes to Consolidated Financial Statements for a discussion of certain recent accounting pronouncements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity and Market Risk Management

Liquidity Management. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows us to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. Our primary source of liquidity at our holding company is dividends paid by our bank subsidiary. Applicable statutes and regulations impose restrictions on the amount of dividends that may be declared by our bank subsidiary. Further, any dividend payments are subject to the continuing ability of the bank subsidiary to maintain compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a well-capitalized institution.

Our bank subsidiary has potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers. Many of these obligations and commitments to fund future borrowings to our loan customers are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Liquidity needs can be met from either assets or liabilities. On the asset side, our primary sources of liquidity include cash and due from banks, federal funds sold, available-for-sale investment securities and scheduled repayments and maturities of loans. We maintain adequate levels of cash and cash equivalents to meet our day-to-day needs. As of December 31, 2015, our cash and cash equivalents were $255.8 million, or 2.8% of total assets, compared to $112.5 million, or 1.5% of total assets, as of December 31, 2014. Our available-for-sale investment securities and federal funds sold were $1.21 billion as of December 31, 2015 and $1.07 billion as of December 31, 2014.

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Our investment portfolio is comprised of approximately 77.6% or $1.18 billion of securities which mature in less than five years. As of December 31, 2015 and 2014, $1.25 billion and $1.23 billion, respectively, of securities were pledged as collateral for various public fund deposits and securities sold under agreements to repurchase.

Our commercial and real estate lending activities are concentrated in loans with maturities of less than five years. As of December 31, 2015, approximately $3.04 billion, or 45.7% of our total loans matured within one year and/or had adjustable interest rates. A loan is considered fixed rate if the loan is currently at its adjustable floor or ceiling. Additionally, we maintain loan participation agreements with other financial institutions in which we could participate out loans for additional liquidity should the need arise.

On the liability side, our principal sources of liquidity are deposits, borrowed funds, and access to capital markets. Customer deposits are our largest sources of funds. As of December 31, 2015, our total deposits were $6.44 billion, or 69.3% of total assets, compared to $5.42 billion, or 73.3% of total assets, as of December 31, 2014. We attract our deposits primarily from individuals, business, and municipalities located in our market areas.

We may occasionally use our Fed funds lines of credit in order to temporarily satisfy short-term liquidity needs. We have Fed funds lines with three other financial institutions pursuant to which we could have borrowed up to $60.0 million on an unsecured basis as of December 31, 2015. We had Fed funds lines with two other financial institutions pursuant to which we could have borrowed up to $35.0 million on an unsecured basis as of December 31, 2014. These lines may be terminated by the respective lending institutions at any time.

We also maintain lines of credit with the Federal Home Loan Bank. Our FHLB borrowed funds were, which are secured by our loan portfolio, $1.41 billion and $698.0 million at December 31, 2015 and 2014, respectively. At December 31, 2015, all $1.41 billion of the outstanding balance were issued as long-term advances. At December 31, 2014, $515.0 million and $183.0 million of the outstanding balance were short-term and long-term advances, respectively. Our FHLB borrowing capacity was $581.9 million and $905.6 million as of December 31, 2015 and 2014, respectively.

We believe that we have sufficient liquidity to satisfy our current operations.

Market Risk Management. Our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. We do not hold market risk sensitive instruments for trading purposes.

Asset/Liability Management. Our management actively measures and manages interest rate risk. The asset/liability committees of the boards of directors of our holding company and bank subsidiary are also responsible for approving our asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing our interest rate sensitivity position.

One of the tools that our management uses to measure short-term interest rate risk is a net interest income simulation model. This analysis calculates the difference between net interest income forecasted using base market rates and using a rising and a falling interest rate scenario. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change.

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Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased and decreased over twelve months by 200 and 100 basis points, respectively. At December 31, 2015, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by us.

Table 39 presents our sensitivity to net interest income as of December 31, 2015.

Table 39: Sensitivity of Net Interest Income

Interest Rate Scenario	Percentage Change from Base
Up 200 basis points	5.55%
Up 100 basis points	2.77
Down 100 basis points	(4.55)
Down 200 basis points	(9.79)

Interest Rate Sensitivity. Our primary business is banking and the resulting earnings, primarily net interest income, are susceptible to changes in market interest rates. It is management s goal to maximize net interest income within acceptable levels of interest rate and liquidity risks.

A key element in the financial performance of financial institutions is the level and type of interest rate risk assumed. The single most significant measure of interest rate risk is the relationship of the repricing periods of earning assets and interest-bearing liabilities. The more closely the repricing periods are correlated, the less interest rate risk we assume. We use repricing gap and simulation modeling as the primary methods in analyzing and managing interest rate risk.

Gap analysis attempts to capture the amounts and timing of balances exposed to changes in interest rates at a given point in time. As of December 31, 2015, our gap position was asset sensitive with a one-year cumulative repricing gap as a percentage of total earning assets of 1.1%. During this period, the amount of change our asset base realizes in relation to the total change in market interest rates is higher than that of the liability base. As a result, our net interest income will have a positive effect in an environment of modestly rising rates.

We have a portion of our securities portfolio invested in mortgage-backed securities. Mortgage-backed securities are included based on their final maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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Table 40 presents a summary of the repricing schedule of our interest-earning assets and interest-bearing liabilities (gap) as of December 31, 2015.

Table 40: Interest Rate Sensitivity

	Interest Rate Sensitivity Period							
	0-30 Days	31-90 Days	91-180 Days	181-365 Days	1-2 Years	2-5 Years	Over 5 Years	Total
	(Dollars in thousands)							
Earning assets								
Interest-bearing deposits due from banks	$ 144,565	$	$	$	$	$	$	$ 144,565
Federal funds sold	1,550							1,550
Investment securities	178,949	93,727	50,133	109,246	192,614	432,543	458,410	1,515,622
Loans receivable	1,634,765	446,361	532,007	904,260	980,481	1,658,971	415,502	6,572,347
Total earning assets	1,959,829	540,088	582,140	1,013,506	1,173,095	2,091,514	873,912	8,234,084
Interest-bearing liabilities								
Savings and interest-bearing transaction accounts	261,062	296,972	445,458	890,916	566,669	550,101	540,506	3,551,684
Time deposits	187,349	188,531	307,713	335,226	303,183	105,071	3,128	1,430,201
Federal funds purchased								
Securities sold under repurchase agreements	128,389							128,389
FHLB borrowed funds	885,058	117	166	15,346	75,401	429,857		1,405,945
Subordinated debentures	60,826							60,826
Total interest-bearing liabilities	1,522,684	485,620	753,337	1,241,488	945,253	1,085,029	543,634	6,577,045
	$ 437,145	$ 54,468	$ (171,197)	$ (227,982)	$ 227,842	$ 1,006,485	$ 330,278	$ 1,657,039

Interest rate sensitivity gap							
Cumulative interest rate sensitivity gap	$ 437,145	$ 491,613	$ 320,416	$ 92,434	$ 320,276	$ 1,326,761	$ 1,657,039
Cumulative rate sensitive assets to rate sensitive liabilities	128.7%	124.5%	111.6%	102.3%	106.5%	122.0%	125.2%
Cumulative gap as a % of total earning assets	5.3%	6.0%	3.9%	1.1%	3.9%	16.1%	20.1%

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Report on Internal Control Over Financial Reporting

The management of Home BancShares, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Company s financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2015 is effective based on the specified criteria.

BKD, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2015. The report, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2015, is included herein.

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have audited the accompanying consolidated balance sheets of Home BancShares, Inc. (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2015. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home BancShares, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Home BancShares, Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 26, 2016, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ **BKD, LLP**

Little Rock, Arkansas

February 26, 2016

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Home BancShares, Inc.

Conway, Arkansas

We have audited Home BancShares, Inc. s (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Home BancShares, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Home BancShares, Inc. and our report dated February 26, 2016, expressed an unqualified opinion thereon.

/s/ **BKD,** LLP

Little Rock, Arkansas

February 26, 2016

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Home BancShares, Inc.

Consolidated Balance Sheets

(In thousands, except share data)	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 111,258	$ 105,438
Interest-bearing deposits with other banks	144,565	7,090
Cash and cash equivalents	255,823	112,528
Federal funds sold	1,550	250
Investment securities available-for-sale	1,206,580	1,067,287
Investment securities held-to-maturity	309,042	356,790
Loans receivable not covered by loss share	6,579,401	4,817,314
Loans receivable covered by FDIC loss share	62,170	240,188
Allowance for loan losses	(69,224)	(55,011)
Loans receivable, net	6,572,347	5,002,491
Bank premises and equipment, net	212,163	206,912
Foreclosed assets held for sale not covered by loss share	18,526	16,951
Foreclosed assets held for sale covered by FDIC loss share	614	7,871
FDIC indemnification asset	9,284	28,409
Cash value of life insurance	85,146	74,444
Accrued interest receivable	29,132	24,075
Deferred tax asset, net	71,565	65,227
Goodwill	377,983	325,423
Core deposit and other intangibles	21,443	20,925
Other assets	117,924	93,689
Total assets	$ 9,289,122	$ 7,403,272
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Demand and non-interest-bearing	$ 1,456,624	$ 1,203,306
Savings and interest-bearing transaction accounts	3,551,684	2,974,850
Time deposits	1,430,201	1,245,815
Total deposits	6,438,509	5,423,971
Securities sold under agreements to repurchase	128,389	176,465
FHLB borrowed funds	1,405,945	697,957
Accrued interest payable and other liabilities	55,696	28,761
Subordinated debentures	60,826	60,826
Total liabilities	8,089,365	6,387,980

Stockholders equity:		
Common stock, par value $0.01; shares authorized 100,000,000 shares in 2015 and 2014; shares issued and outstanding 70,120,502 in 2015 and 67,570,610 in 2014	701	676
Capital surplus	867,981	781,328
Retained earnings	326,898	226,279
Accumulated other comprehensive income (loss)	4,177	7,009
Total stockholders equity	1,199,757	1,015,292
Total liabilities and stockholders equity	$ 9,289,122	$ 7,403,272

See accompanying notes.

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Home BancShares, Inc.

Consolidated Statements of Income

	Year Ended December 31,		
(In thousands, except per share data)	**2015**	**2014**	**2013**
Interest income:			
Loans	$ 344,290	$ 306,345	$ 198,536
Investment securities			
Taxable	21,695	19,305	12,298
Tax-exempt	11,194	10,091	6,009
Deposits other banks	233	97	254
Federal funds sold	24	50	29
Total interest income	377,436	335,888	217,126
Interest expense:			
Interest on deposits	12,971	12,796	9,744
Federal funds purchased	4	3	4
FHLB borrowed funds	6,774	4,041	3,841
Securities sold under agreements to repurchase	621	717	424
Subordinated debentures	1,354	1,313	518
Total interest expense	21,724	18,870	14,531
Net interest income	355,712	317,018	202,595
Provision for loan losses	25,164	22,664	5,180
Net interest income after provision for loan losses	330,548	294,354	197,415
Non-interest income:			
Service charges on deposit accounts	24,252	24,522	17,870
Other service charges and fees	26,186	23,914	15,733
Trust fees	2,381	1,378	335
Mortgage lending income	10,423	7,556	5,988
Insurance commissions	2,268	4,311	2,420
Income from title services	152	222	523
Increase in cash value of life insurance	1,199	1,210	836
Dividends from FHLB, FRB, Bankers bank & other	1,698	1,611	1,028
Gain on acquisitions	1,635		
Gain on sale of SBA loans	541	183	135
Gain (loss) on sale of premises and equipment, net	(214)	322	397
Gain (loss) on OREO, net	(317)	2,191	1,651
Gain (loss) on securities, net	4		111
FDIC indemnification accretion/(amortization), net	(9,391)	(25,752)	(10,401)
Other income	4,681	3,094	3,739

Total non-interest income	65,498	44,762	40,365
Non-interest expense:			
Salaries and employee benefits	87,512	77,025	58,394
Occupancy and equipment	25,967	25,031	17,168
Data processing expense	10,774	7,229	5,393
Other operating expenses	53,302	52,658	52,352
Total non-interest expense	177,555	161,943	133,307
Income before income taxes	218,491	177,173	104,473
Income tax expense	80,292	64,110	37,953
Net income	$ 138,199	$ 113,063	$ 66,520
Basic earnings per common share	$ 2.02	$ 1.71	$ 1.15
Diluted earnings per common share	$ 2.02	$ 1.70	$ 1.14

See accompanying notes.

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Home BancShares, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended December 31, 2015	2014	2013
Net income available to all stockholders	$ 138,199	$ 113,063	$ 66,520
Net unrealized gain (loss) on available-for-sale securities	(4,656)	18,346	(26,450)
Less: reclassification adjustment for realized (gains) losses included in income	(4)		(111)
Other comprehensive income (loss), before tax effect	(4,660)	18,346	(26,561)
Tax effect	1,828	(7,197)	10,420
Other comprehensive income (loss)	(2,832)	11,149	(16,141)
Comprehensive income	$ 135,367	$ 124,212	$ 50,379

Home BancShares, Inc.

Consolidated Statements of Stockholders Equity

Years Ended December 31, 2015, 2014 and 2013

(In thousands, except share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2013	$ 281	$ 416,354	$ 86,837	$ 12,001	$ 515,473
Comprehensive income:					
Net income			66,520		66,520
Other comprehensive income (loss)				(16,141)	(16,141)
Net issuance of 86,201 shares of common stock from exercise of stock options	1	430			431
Two for one stock split during June 2013	281	(281)			
Issuance of 8,763,930 shares of common stock from acquisition of Liberty, net of issuance costs of approximately $577	88	289,421			289,509
Tax benefit from stock options exercised		836			836
Share-based compensation		1,298			1,298
Cash dividends - Common Stock, $0.29 per share			(16,971)		(16,971)

Balances at December 31, 2013	651	708,058	136,386	(4,140)	840,955
Comprehensive income:					
Net income			113,063		113,063
Other comprehensive income (loss)				11,149	11,149
Net issuance of 120,361 shares of common stock from exercise of stock options	1	573			574
Issuance of 1,316,072 shares of common stock from acquisition of Traditions, net of issuance costs of approximately $215	13	39,254			39,267
Issuance of 1,020,824 shares of common stock from acquisition of Broward, net of issuance costs of approximately $116	10	30,121			30,131
Disgorgement of profits		25			25
Tax benefit from stock options exercised		1,225			1,225
Share-based compensation	1	2,072			2,073
Cash dividends - Common Stock, $0.35 per share			(23,170)		(23,170)
Balances at December 31, 2014	676	781,328	226,279	7,009	1,015,292
Comprehensive income:			138,199		138,199
Net income					
Other comprehensive income (loss)				(2,832)	(2,832)
Net issuance of 204,536 shares of common stock from exercise of stock options	2	387			389
Issuance of 2,079,854 shares of common stock from acquisition of FBBI, net of issuance costs of approximately $60	21	83,753			83,774
Repurchase of 67,332 shares of common stock	(1)	(2,014)			(2,015)
Tax benefit from stock options exercised		605			605
Share-based compensation	3	3,922			3,925
Cash dividends - Common Stock, $0.55 per share			(37,580)		(37,580)
Balances at December 31, 2015	$ 701	$ 867,981	$ 326,898	$ 4,177	$ 1,199,757

See accompanying notes.

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Home BancShares, Inc.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31, 2015	2014	2013
Operating Activities			
Net income	$ 138,199	$ 113,063	$ 66,520
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	10,296	10,116	7,225
Amortization/(accretion)	21,783	35,648	(1,214)
Share-based compensation	3,925	2,073	1,298
Tax benefits from stock options exercised	(605)	(1,225)	(836)
(Gain) loss on assets	(6)	(2,696)	(2,620)
Gain on acquisitions	(1,635)		
Provision for loan losses	25,164	22,664	5,180
Deferred income tax effect	7,168	18,698	24,160
Increase in cash value of life insurance	(1,199)	(1,210)	(836)
Originations of mortgage loans held for sale	(280,858)	(228,119)	(228,382)
Proceeds from sales of mortgage loans held for sale	272,107	225,499	210,184
Changes in assets and liabilities:			
Accrued interest receivable	(3,615)	153	3,816
Indemnification and other assets	(10,312)	28,073	64,647
Accrued interest payable and other liabilities	24,651	22,658	(36,105)
Net cash provided by (used in) operating activities	205,063	245,395	113,037
Investing Activities			
Net (increase) decrease in federal funds sold	(1,300)	4,419	17,473
Net (increase) decrease in loans, excluding loans acquired	(874,092)	(245,656)	(56,242)
Purchases of investment securities available-for-sale	(382,631)	(75,456)	(364,055)
Proceeds from maturities of investment securities available-for-sale	290,506	253,551	226,208
Proceeds from sale of investment securities available-for-sale	4,034		282,451
Purchases of investment securities held-to-maturity	(6,563)	(265,704)	(19,052)
Proceeds from maturities of investment securities held-to-maturity	52,127	22,474	
Proceeds from foreclosed assets held for sale	20,928	46,029	59,607
Proceeds from sale of SBA loans	8,256	1,488	2,085
Proceeds from sale of insurance book of business	2,938		
Purchases of premises and equipment, net	(10,536)	(67)	(12,715)
Death benefits received			540
Return of investment on cash value of life insurance	27		
Net cash proceeds (paid) received market acquisitions	144,097	11,720	(52,134)
Net cash provided by (used in) investing activities	(752,209)	(247,202)	84,166

Financing Activities			
Net increase (decrease) in deposits, excluding deposits acquired	74,992	(370,656)	(222,907)
Net increase (decrease) in securities sold under agreements to repurchase	(48,076)	15,481	11,330
Net increase (decrease) in FHLB borrowed funds	702,186	325,653	(10,666)
Retirement of subordinated debentures			(25,000)
Proceeds from exercise of stock options	389	574	431
Repurchase of common stock	(2,015)		
Disgorgement of profits		25	
Common stock issuance costs market acquisitions	(60)	(331)	(577)
Tax benefits from stock options exercised	605	1,225	836
Dividends paid on common stock	(37,580)	(23,170)	(16,971)
Net cash provided by (used in) financing activities	690,441	(51,199)	(263,524)
Net change in cash and cash equivalents	143,295	(53,006)	(66,321)
Cash and cash equivalents beginning of year	112,528	165,534	231,855
Cash and cash equivalents end of year	$ 255,823	$ 112,528	$ 165,534

See accompanying notes.

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Home BancShares, Inc.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Home BancShares, Inc. (the Company or HBI) is a bank holding company headquartered in Conway, Arkansas. The Company is primarily engaged in providing a full range of banking services to individual and corporate customers through its wholly-owned community bank subsidiary Centennial Bank (sometimes referred to as Centennial or the Bank). The Bank has branch locations in Arkansas, Florida and South Alabama and a loan production office in New York City. The Company is subject to competition from other financial institutions. The Company also is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

A summary of the significant accounting policies of the Company follows:

Operating Segments

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of the Bank provide a group of similar community banking services, including such products and services as commercial, real estate and consumer loans, time deposits, checking and savings accounts. The individual bank branches have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services and branch locations, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of investment securities, the valuation of foreclosed assets, the valuations of assets acquired and liabilities assumed in business combinations, covered loans and the related indemnification asset. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets, management obtains independent appraisals for significant properties.

Principles of Consolidation

The consolidated financial statements include the accounts of HBI and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Various items within the accompanying consolidated financial statements for previous years have been reclassified to provide more comparative information. These reclassifications had no effect on net earnings or stockholders equity.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits with banks and interest-bearing deposits with other banks.

Investment Securities

Interest on investment securities is recorded as income as earned. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains or losses on the sale of securities are determined using the specific identification method.

Management determines the classification of securities as available-for-sale, held-to-maturity, or trading at the time of purchase based on the intent and objective of the investment and the ability to hold to maturity. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities. The Company has no trading securities.

Securities available-for-sale are reported at fair value with unrealized holding gains and losses reported as a separate component of stockholders equity and other comprehensive income, net of taxes. Securities that are held as available-for-sale are used as a part of HBI s asset/liability management strategy. Securities that may be sold in response to interest rate changes, changes in prepayment risk, the need to increase regulatory capital, and other similar factors are classified as available-for-sale.

Securities held-to-maturity include any security for which the Company has the positive intent and ability to hold until maturity, are reported at historical cost and are adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are amortized and accreted, respectively, to interest income using the constant yield method over the period to maturity.

Loans Receivable Not Covered by Loss Share and Allowance for Loan Losses

Loans receivable not covered by loss share that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, deferred fees or costs on originated loans. Interest income on loans is accrued over the term of the loans based on the principal balance outstanding. Loan origination fees and direct origination costs are capitalized and recognized as adjustments to yield on the related loans.

The allowance for loan losses is established through a provision for loan losses charged against income. The allowance represents an amount that, in management s judgment, will be adequate to absorb probable credit losses on existing loans that may become uncollectible and probable credit losses inherent in the remainder of the loan portfolio. The amounts of provisions to the allowance for loan losses are based on management s analysis and evaluation of the loan portfolio for identification of problem credits, internal and external factors that may affect collectability, relevant credit exposure, particular risks inherent in different kinds of lending, current collateral values and other relevant factors.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and classified loans less than $2.0 million and is based on historical charge-off experience and expected loss given default derived from the Bank s internal risk rating process.

Other adjustments may be made to the allowance for pools of loans accounted for under FASB ASC 310-30, *Loans Acquired with Deteriorated Credit Quality,* after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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Loans considered impaired, under FASB ASC 310-10-35, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The aggregate amount of impairment of loans is utilized in evaluating the adequacy of the allowance for loan losses and amount of provisions thereto. Losses on impaired loans are charged against the allowance for loan losses when in the process of collection it appears likely that such losses will be realized. The accrual of interest on impaired loans is discontinued when, in management s opinion, the borrower may be unable to meet payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Loans are placed on non-accrual status when management believes that the borrower s financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful, or generally when loans are 90 days or more past due. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Accrued interest related to non-accrual loans is generally charged against the allowance for loan losses when accrued in prior years and reversed from interest income if accrued in the current year. Interest income on non-accrual loans may be recognized to the extent cash payments are received, but payments received are usually applied to principal. Non-accrual loans are generally returned to accrual status after being current for a period of at least six months. An exception to this six-month period can be made if it can be proven that the borrower has historically demonstrated repayment performance consistent with the terms of the loan and the Company expects to collect all principal and interest.

Acquisition Accounting, Acquired Loans and Related Indemnification Asset

The Company accounts for its acquisitions under FASB ASC Topic 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC Topic 820, *Fair Value Measurements*, exclusive of the shared-loss agreements with the Federal Deposit Insurance Corporation (FDIC). The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics and are treated in the aggregate when applying various valuation techniques. The Company evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has significantly decreased and if so, recognizes a provision for loan loss in its consolidated statement of income. For any significant increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s weighted average life.

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared-loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

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The shared-loss agreements continue to be measured on the same basis as the related indemnified loans subject to contractual limitations of the loss share agreements. Because the acquired loans are subject to the accounting prescribed by FASB ASC Topic 310, *Receivables*, subsequent changes to the basis of the shared-loss agreements also follow that model. Deterioration in the credit quality of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the basis of the shared-loss agreements, with the offset recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the weighted average life of the loans or pools) decrease the basis of the shared-loss agreements, with such decrease being amortized against non-interest income over 1) the same period or 2) the life of the shared-loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared-loss agreements.

Upon the determination of an incurred loss, the indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded in other assets until cash is received from the FDIC.

For further discussion of the Company s acquisitions and loan accounting, see Note 2 and Note 5 to the Notes to Consolidated Financial Statements.

Foreclosed Assets Held for Sale

Real estate and personal properties acquired through or in lieu of loan foreclosure are to be sold and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis.

Valuations are periodically performed by management, and the real estate and personal properties are carried at fair value less costs to sell. Gains and losses from the sale of other real estate and personal properties are recorded in non-interest income, and expenses used to maintain the properties are included in non-interest expenses.

Because the FDIC will reimburse the Company for covered foreclosed assets should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date and as covered loans move into foreclosure status. The indemnification asset is measured on the same basis as the foreclosed assets, subject to collectability. The shared-loss agreements reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

Upon the determination of an incurred loss, the indemnification asset is reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded in other assets until cash is received from the FDIC.

Bank Premises and Equipment

Bank premises and equipment are carried at cost or fair market value at the date of acquisition less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are used for tax purposes. Leasehold improvements are capitalized and amortized using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements whichever is shorter. The assets estimated useful lives for book purposes are as follows:

Bank premises	15-40 years

Furniture, fixtures, and equipment	3-15 years

Cash value of life insurance

The Company has purchased life insurance policies on certain key employees. Life insurance owned by the Company is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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Intangible Assets

Intangible assets consist of goodwill and core deposit intangibles. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The core deposit intangible represents the excess intangible value of acquired deposit customer relationships as determined by valuation specialists. The core deposit intangibles are being amortized over 48 to 121 months on a straight-line basis. Goodwill is not amortized but rather is evaluated for impairment on at least an annual basis. The Company performed its annual impairment test of goodwill and core deposit intangibles during 2015, 2014 and 2013, as required by FASB ASC 350, *Intangibles - Goodwill and Other*. The 2015 and 2014 tests indicated no impairment of the Company s goodwill or core deposit intangibles. The 2013 tests indicated no impairment of the Company s goodwill and a $173,000 impairment of core deposit intangibles in connection with the acquisition of Heritage Bank. This amount was expensed during the fourth quarter of 2013.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. At the point funds deposited by customers become investable, those funds are used to purchase securities owned by the Company and held in its general account with the designation of Customers Securities. A third party maintains control over the securities underlying overnight repurchase agreements. The securities involved in these transactions are generally U.S. Treasury or Federal Agency issues. Securities sold under agreements to repurchase generally mature on the banking day following that on which the investment was initially purchased and are treated as collateralized financing transactions which are recorded at the amounts at which the securities were sold plus accrued interest. Interest rates and maturity dates of the securities involved vary and are not intended to be matched with funds from customers.

Derivative Financial Instruments

The Company may enter into derivative contracts for the purposes of managing exposure to interest rate risk. The Company records all derivatives on the consolidated balance sheet at fair value. Historically the Company s policy has been not to invest in derivative type investments.

As of December 31, 2014, the Company had no derivative contracts outstanding except for mortgage loans held for sale which are delivered on a best effort basis. As of December 31, 2015, the Company had no derivative contracts outstanding except for mortgage loans held for sale which changed from best effort basis to mandatory commitments during the fourth quarter of 2015.

Stock Options

The Company accounts for stock options in accordance with FASB ASC 718, *Compensation - Stock Compensation,* which establishes standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods and services, or (ii) incurs liabilities in exchange for goods and services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of the equity instruments. FASB ASC 718 requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which is generally the date of the grant.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company and its subsidiaries file consolidated tax returns. Its subsidiaries provide for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable.

Earnings per Share

Basic earnings per share are computed based on the weighted average number of shares outstanding during each year. Diluted earnings per share are computed using the weighted average common shares and all potential dilutive common shares outstanding during the period. The following table sets forth the computation of basic and diluted earnings per share (EPS) for the years ended December 31:

	2015	2014	2013
	(In thousands, except per share data)		
Net income	$ 138,199	$ 113,063	$ 66,520
Average common shares outstanding	68,308	65,951	57,908
Effect of common stock options	257	380	344
Diluted common shares outstanding	68,565	66,331	58,252
Basic earnings per common share	$ 2.02	$ 1.71	$ 1.15
Diluted earnings per common share	$ 2.02	$ 1.70	$ 1.14

2. Business Combinations

Acquisition of Florida Business BancGroup, Inc.

On October 1, 2015, the Company completed its acquisition of Florida Business BancGroup, Inc. (FBBI), parent company of Bay Cities Bank (Bay Cities). The Company paid a purchase price to the FBBI shareholders of $104.1 million for the FBBI acquisition. Under the terms of the agreement, shareholders of FBBI received 2,079,854 shares of its common stock valued at approximately $83.8 million as of October 1, 2015, plus approximately $20.3 million in cash in exchange for all outstanding shares of FBBI common stock. A portion of the cash consideration, $2.0 million, has been placed into escrow, and FBBI shareholders will have a contingent right to receive their pro-rata portions of such amount. The amount, if any, of such escrowed funds to be released to FBBI shareholders will depend upon the amount of losses that HBI incurs in the two years following the completion of the merger related to two class action lawsuits that are pending against Bay Cities.

FBBI formerly operated six branch locations and a loan production office in the Tampa Bay area and in Sarasota, Florida. Including the effects of any purchase accounting adjustments, as of October 1, 2015, FBBI had approximately $564.5 million in total assets, $408.3 million in loans after $14.1 million of loan discounts, and $472.0 million in deposits.

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The Company has determined that the acquisition of the net assets of FBBI constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Florida Business BancGroup, Inc.		
	Acquired from FBBI	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 23,597	$ (20,320)	$ 3,277
Investment securities	61,384	611	61,995
Loans not covered by loss share	422,363	(14,096)	408,267
Allowance for loan losses	(5,714)	5,714	
Total loans receivable	416,649	(8,382)	408,267
Bank premises and equipment, net	6,922	(1,697)	5,225
Foreclosed assets held for sale not covered by loss share	205	(43)	162
Cash value of life insurance	9,540		9,540
Accrued interest receivable	1,442		1,442
Deferred tax asset	10,608	1,070	11,678
Goodwill		55,255	55,255
Core deposit intangible		3,477	3,477
Other assets	1,289	2,890	4,179
Total assets acquired	$ 531,636	$ 32,861	$ 564,497
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 150,625	$	$ 150,625
Savings and interest-bearing transaction accounts	166,990		166,990
Time deposits	153,230	1,127	154,357
Total deposits	470,845	1,127	471,972
FHLB borrowed funds	5,000	802	5,802
Accrued interest payable and other liabilities	3,208	(319)	2,889
Total liabilities assumed	479,053	1,610	480,663
Equity			
Common stock	78	(57)	21
Capital surplus	57,169	26,644	83,813
Retained earnings	(4,664)	4,664	

Total equity assumed	52,583	31,251	83,834
Total liabilities and equity assumed	$ 531,636	$ 32,861	$ 564,497

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

Cash and due from banks The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $20.3 million adjustment primarily consists of the cash settlement paid to FBBI shareholders on the closing date and cash-in-lieu of fractional shares.

Investment securities Investment securities were acquired from FBBI with a $611,000 adjustment to market value based upon quoted market prices.

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Loans Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

The Company evaluated $390.9 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* which were recorded with a $7.0 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining $31.5 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* and were recorded with a $7.1 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Bank premises and equipment Bank premises and equipment were acquired from FBBI with a $1.7 million adjustment to market value. This represents the difference between current appraisals completed in connection with the acquisition and book value acquired.

Foreclosed assets held for sale not covered by loss share These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs to sell.

Cash value of life insurance Cash value of life insurance was acquired from FBBI at market value.

Accrued interest receivable Accrued interest receivable was acquired from FBBI at market value.

Deferred tax asset The current and deferred income tax assets and liabilities are recorded to reflect the differences in the carrying values of the acquired assets and assumed liabilities for financial reporting purposes and the cost basis for federal income tax purposes, at the Company s statutory federal and state income tax rate of 39.225%.

Goodwill The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded $55.3 million of goodwill.

Core deposit intangible This intangible asset represents the value of the relationships that FBBI had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $3.5 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The $1.1 million fair value adjustment applied for time deposits was because the weighted average interest rate of FBBI s certificates of deposits were estimated to be above the current market rates.

FHLB borrowed funds The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Accrued interest payable and other liabilities The fair value used represents the adjustment of certain estimated liabilities from FBBI.

The purchase price allocation and certain fair value measurements remain preliminary due to the timing of the acquisition. The Company will continue to review the estimated fair values of loans, deposits, property and equipment, intangible assets, and other assets and liabilities, and to evaluate the assumed tax positions and contingencies.

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The Company s operating results for the period ended December 31, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact FBBI total assets acquired are less than 5% of total assets as of December 31, 2015 excluding FBBI as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company s results, and thus no pro-forma information is presented.

Acquisition of Pool of National Commercial Real Estate Loans

On April 1, 2015, the Company s wholly-owned bank subsidiary, Centennial, entered into an agreement with AM PR LLC, an affiliate of J.C. Flowers & Co. (collectively, the Seller) to purchase a pool of national commercial real estate loans totaling approximately $289.1 million for a purchase price of 99% of the total principal value of the acquired loans. The purchase of the loans was completed on April 1, 2015. The acquired loans were originated by the former Doral Bank within its Doral Property Finance portfolio (DPF Portfolio) and were transferred to the Seller by Banco Popular of Puerto Rico (Popular) upon its acquisition of the assets and liabilities of Doral Bank from FDIC, as receiver for the failed Doral Bank. This pool of loans is now housed in a division of Centennial known as the Centennial Commercial Finance Group (Centennial CFG). The Centennial CFG is responsible for servicing the acquired loan pool and originating new loan production.

In connection with this acquisition of loans, the Company opened a loan production office on April 23, 2015 in New York City. Through the loan production office, Centennial CFG plans to build out a national lending platform focusing on commercial real estate plus commercial and industrial loans.

Acquisition of Doral Bank s Florida Panhandle operations

On February 27, 2015, the Company s banking subsidiary, Centennial, acquired all the deposits and substantially all the assets of Doral Bank s Florida Panhandle operations (Doral Florida) through an alliance agreement with Popular who was the successful lead bidder with the FDIC on the failed Doral Bank of San Juan, Puerto Rico. Including the effects of the purchase accounting adjustments, the acquisition provided the Company with loans of approximately $37.9 million net of loan discounts, deposits of approximately $467.6 million, plus a $428.2 million cash settlement to balance the transaction. There is no loss-share with the FDIC in the acquired assets.

Prior to the acquisition, Doral Florida operated five branch locations in Panama City, Panama City Beach and Pensacola, Florida plus a loan production office in Tallahassee, Florida. At the time of acquisition, Centennial operated 29 branch locations in the Florida Panhandle. As a result, the Company closed all five branch locations during the July 2015 systems conversion and returned the facilities back to the FDIC.

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The Company has determined that the acquisition of the net assets of Doral Florida constitutes a business combination as defined by the FASB ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of FASB ASC Topic 820, *Fair Value Measurements*. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Doral Bank s Florida Panhandle operations		
	Acquired from FDIC	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 1,688	$ 428,214	$ 429,902
Loans receivable not covered by loss share	42,244	(4,300)	37,944
Total loans receivable	42,244	(4,300)	37,944
Core deposit intangible		1,363	1,363
Total assets acquired	$ 43,932	$ 425,277	$ 469,209
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 3,130	$	$ 3,130
Savings and interest-bearing transaction accounts	119,865		119,865
Time deposits	343,271	1,308	344,579
Total deposits	466,266	1,308	467,574
Total liabilities assumed	$ 466,266	$ 1,308	$ 467,574
Pre-tax gain on acquisition			$ 1,635

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

Cash and due from banks   The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $428.2 million adjustment is the cash settlement received from Popular for the net equity received, assets discount bid and other customary closing adjustments.

Loans   Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

The Company evaluated $36.9 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*, and were recorded with a $3.4 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted-average life of the loans using a constant yield method. The remaining approximately $5.3 million of loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, and were recorded with a $950,000 discount. These purchased credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

<u>Core deposit intangible</u>   This intangible asset represents the value of the relationships that Doral Florida had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $1.4 million of core deposit intangible.

Deposits The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition, equal the amount payable on demand at the acquisition date. The Bank was able to reset deposit rates. However, the Bank did not lower the deposit rates as low as the market rates currently offered. As a result, a $1.3 million fair value adjustment was applied for time deposits because the estimated weighted-average interest rate of Doral Florida s certificates of deposits were still estimated to be above the current market rates after the rate reset.

The Company s operating results for the period ended December 31, 2015, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Doral Florida total assets acquired excluding the cash settlement received is less than 1% of total assets as of acquisition date, historical results are not believed to be material to the Company s results, and thus no pro-forma information is presented.

Acquisition of Broward Financial Holdings, Inc.

On October 23, 2014, the Company completed its acquisition of Broward Financial Holdings, Inc. (Broward), parent company of Broward Bank of Commerce, pursuant to a previously announced definitive agreement and plan of merger whereby a wholly-owned acquisition subsidiary (Acquisition Sub II) of HBI merged with and into Broward, resulting in Broward becoming a wholly-owned subsidiary of HBI. Immediately thereafter, Broward Bank of Commerce was merged into Centennial. Under the terms of the Agreement and Plan of Merger dated July 30, 2014 by and among HBI, Centennial, Broward, Broward Bank of Commerce and Acquisition Sub II, HBI issued 1,020,824 shares of its common stock valued at approximately $30.2 million as of October 23, 2014, plus $3.3 million in cash in exchange for all outstanding shares of Broward common stock. HBI has also agreed to pay the Broward shareholders at an undetermined date up to approximately $751,000 in additional consideration. The amount and timing of the additional payment, if any, will depend on future payments received or losses incurred by Centennial from certain current Broward Bank of Commerce loans. At December 31, 2015, the Company had recorded a fair value of zero for the potential additional consideration.

Prior to the acquisition, Broward Bank of Commerce operated two banking locations in Fort Lauderdale, Florida. Including the effects of the purchase accounting adjustments, Broward had approximately $184.4 million in total assets, $121.1 million in total loans after $3.0 million of loan discounts, and $134.2 million in deposits.

As of the acquisition date, Broward s common equity totaled $20.4 million and the Company paid a purchase price to the Broward shareholders of approximately $33.6 million for the Broward acquisition. As a result, the Company paid a multiple of 1.62 of Broward s book value per share and tangible book value per share.

The Company has determined that the acquisition of the net assets of Broward constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

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	Broward Bank of Commerce		
	Acquired from Broward	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 288	$ (3,308)	$ (3,020)
Interest-bearing deposits with other banks	1,425		1,425
Federal funds sold	124		124
Investment securities	42,473	423	42,896
Loans not covered by loss share	124,109	(3,000)	121,109
Allowance for loan losses	(2,723)	2,723	
Total loans receivable	121,386	(277)	121,109
Bank premises and equipment, net	1,520		1,520
Cash value of life insurance	3,213		3,213
Accrued interest receivable	573		573
Deferred tax asset	1,725	(543)	1,182
Goodwill		12,103	12,103
Core deposit intangible		1,084	1,084
Other assets	1,852	358	2,210
Total assets acquired	$ 174,579	$ 9,840	$ 184,419
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 29,399	$	$ 29,399
Savings and interest-bearing transaction accounts	64,429		64,429
Time deposits	40,405		40,405
Total deposits	134,233		134,233
FHLB borrowed funds	19,000		19,000
Accrued interest payable and other liabilities	939		939
Total liabilities assumed	154,172		154,172
Equity			
Common stock	1,950	(1,940)	10
Capital surplus	18,800	11,437	30,237
Retained earnings	(242)	242	
Accumulated other comprehensive income	(101)	101	
Total equity assumed	20,407	9,840	30,247
Total liabilities and equity assumed	$ 174,579	$ 9,840	$ 184,419

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold   The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $3.3 million adjustment primarily consists of the cash settlement paid to Broward shareholders on the closing date and cash-in-lieu of fractional shares.

Investment securities   Investment securities were acquired from Broward with a $423,000 adjustment to market value based upon quoted market prices.

Loans   Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

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The Company evaluated $121.3 million of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* and were recorded with a $1.7 million discount. As a result, the fair value discount on these loans is being accreted into interest income over the weighted average life of the loans using a constant yield method. The remaining $2.8 million of loans evaluated were considered purchased credit impaired loans within the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* and were recorded with a $1.3 million discount. These purchase credit impaired loans will recognize interest income through accretion of the difference between the carrying amount of the loans and the expected cash flows.

Bank premises and equipment   Bank premises and equipment were acquired from Broward at market value.

Cash value of life insurance   Cash value of life insurance was acquired from Broward at market value.

Accrued interest receivable   Accrued interest receivable was acquired from Broward at market value.

Deferred tax asset   The current and deferred income tax assets and liabilities are recorded to reflect the differences in the carrying values of the acquired assets and assumed liabilities for financial reporting purposes and the cost basis for federal income tax purposes, at the Company s statutory federal and state income tax rate of 39.225%.

Goodwill   The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded $12.1 million of goodwill.

Core deposit intangible   This intangible asset represents the value of the relationships that Broward had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $1.1 million of core deposit intangible.

Deposits   The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. No fair value adjustment was applied for time deposits because the weighted average interest rate of Broward s certificates of deposits were at the market rates of similar funding at the time of acquisition.

FHLB borrowed funds   The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Accrued interest payable and other liabilities   The fair value used represents the adjustment of certain estimated liabilities from Broward.

The Company s operating results for the period ended December 31, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Broward total assets acquired are less than 5% of total assets as of December 31, 2014 excluding Broward as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company s results, and thus no pro-forma information is presented.

Acquisition of Florida Traditions Bank

On July 17, 2014, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Florida Traditions Bank (Traditions) and merged Traditions into Centennial Bank. Under the terms of the

Traditions Agreement, the shareholders of Traditions received approximately $39.5 million of the Company s common stock valued at the time of closing, in exchange for all outstanding shares of Traditions common stock.

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Prior to the acquisition, Traditions operated eight banking locations in Central Florida, including its main office in Dade City, Florida. Including the effects of the purchase accounting adjustments, Traditions had $310.5 million in total assets, $241.6 million in loans after $8.5 million of loan discounts, and $267.3 million in deposits.

The transaction was accretive to the Company s book value per common share and tangible book value per common share by $0.31 per share and $0.21 per share, respectively.

The Company has determined that the acquisition of the net assets of Traditions constitutes a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

	Florida Traditions Bank		
	Acquired from Traditions	Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 5,169	$ (5)	$ 5,164
Interest-bearing deposits with other banks	8,151		8,151
Federal funds sold	270		270
Investment securities	12,942	(81)	12,861
Loans not covered by loss share	250,129	(8,500)	241,629
Allowance for loan losses	(4,532)	4,532	
Total loans receivable	245,597	(3,968)	241,629
Bank premises and equipment, net	15,791	2,104	17,895
Foreclosed assets held for sale not covered by loss share	100		100
Cash value of life insurance	6,535		6,535
Accrued interest receivable	711		711
Deferred tax asset	1,206	(678)	528
Goodwill		11,584	11,584
Core deposit intangible		2,173	2,173
Other assets	1,157	1,715	2,872
Total assets acquired	$ 297,629	$ 12,844	$ 310,473
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 50,503	$	$ 50,503
Savings and interest-bearing transaction accounts	147,814		147,814
Time deposits	69,031		69,031

Total deposits	267,348		267,348
FHLB borrowed funds	2,643		2,643
Accrued interest payable and other liabilities	1,155	(155)	1,000
Total liabilities assumed	271,146	(155)	270,991
Equity			
Common stock	26	(13)	13
Capital surplus	25,799	13,670	39,469
Retained earnings	632	(632)	
Accumulated other comprehensive income	26	(26)	
Total equity assumed	26,483	12,999	39,482
Total liabilities and equity assumed	$ 297,629	$ 12,844	$ 310,473

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The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above:

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold   The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets. The $5,000 adjustment is the cash settlement paid to Traditions shareholders for cash-in-lieu of fractional shares.

Investment securities   Investment securities were acquired from Traditions with an $81,000 adjustment to market value based upon quoted market prices.

Loans   Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

The Company evaluated all of the loans purchased in conjunction with the acquisition in accordance with the provisions of FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs*. None of the loans evaluated were considered purchased credit impaired loans with in the provisions of FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. As a result, the fair value discount is being accreted into interest income over the weighted average life of the loans using a constant yield method.

Bank premises and equipment   Bank premises and equipment were acquired from Traditions with a $2.1 million adjustment to market value. This represents the difference between current appraisal completed in connection with the acquisition and book value acquired.

Foreclosed assets held for sale not covered by loss share   These assets are presented at the estimated fair values that management expects to receive when the properties are sold, net of related costs of disposal.

Cash value of life insurance   Cash value of life insurance was acquired from Traditions at market value.

Accrued interest receivable   Accrued interest receivable was acquired from Traditions at market value.

Deferred tax asset   The current and deferred income tax assets and liabilities are recorded to reflect the differences in the carrying values of the acquired assets and assumed liabilities for financial reporting purposes and the cost basis for federal income tax purposes, at the Company s statutory federal and state income tax rate of 39.225%.

Goodwill   The consideration paid as a result of the acquisition exceeded the fair value of the assets acquired; therefore, the Company recorded $11.6 million of goodwill.

Core deposit intangible   This intangible asset represents the value of the relationships that Traditions had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits. The Company recorded $2.2 million of core deposit intangible.

Deposits   The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. No fair value adjustment was applied for time deposits because the weighted average interest rate of Traditions certificates of deposits were at the market rates of similar funding at the time of acquisition.

FHLB borrowed funds   The fair value of FHLB borrowed funds is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Accrued interest payable and other liabilities   The fair value used represents the adjustment of certain estimated liabilities from Traditions.

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The Company s operating results for the period ended December 31, 2014, include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Due to the fair value adjustments recorded and the fact Traditions total assets acquired are less than 5% of total assets as of December 31, 2014 excluding Traditions as recorded by HBI as of acquisition date, historical results are not believed to be material to the Company s results, and thus no pro-forma information is presented.

Acquisition of Liberty Bancshares, Inc.

On October 24, 2013, the Company completed the acquisition of all of the issued and outstanding shares of common stock of Liberty Bancshares, Inc. (Liberty), parent company of Liberty Bank of Arkansas (Liberty Bank), and merged Liberty Bank into Centennial Bank. Under the terms of the Liberty Agreement, the shareholders of Liberty received approximately $290.1 million of the Company s common stock valued at the time of the closing, plus approximately $30.0 million in cash, in exchange for all outstanding shares of Liberty common stock. Home BancShares also repurchased all of Liberty s SBLF preferred stock held by the U.S. Treasury shortly after the closing. The merger significantly increased the Company s deposit market share in Arkansas making it the second largest bank holding company headquartered in Arkansas.

Prior to the acquisition, Liberty Bank operated 46 banking offices located in northeast Arkansas, north central Arkansas and northwest Arkansas. Including the effects of the purchase accounting adjustments, the Company acquired approximately $2.82 billion in assets, approximately $1.73 billion in loans including loan discounts and approximately $2.13 billion of deposits.

The Company has determined that the acquisition of the net assets of Liberty constitute a business combination as defined by the ASC Topic 805. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of ASC Topic 820. In many cases, the determination of these fair values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. The following schedule is a breakdown of the assets acquired and liabilities assumed as of the acquisition date:

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	Acquired from Liberty	Liberty Bank Fair Value Adjustments	As Recorded by HBI
	(Dollars in thousands)		
Assets			
Cash and due from banks	$ 26,101	$ (30,005)	$ (3,904)
Interest-bearing deposits with other banks	4,270	(52,500)	(48,230)
Federal funds sold	4,600		4,600
Investment securities	731,249	(9,802)	721,447
Loans not covered by loss share	1,835,644	(104,042)	1,731,602
Allowance for loan losses	(21,964)	21,964	
Total loans receivable	1,813,680	(82,078)	1,731,602
Bank premises and equipment, net	82,879	(5,425)	77,454
Foreclosed assets held for sale not covered by loss share	34,795	(9,115)	25,680
Cash value of life insurance	3,669		3,669
Accrued interest receivable	10,455		10,455
Deferred tax asset	9,268	46,886	56,154
Goodwill	88,499	127,556	216,055
Core deposit intangible	1,488	12,373	13,861
Other assets	11,906	(1,456)	10,450
Total assets acquired	$ 2,822,859	$ (3,566)	$ 2,819,293
Liabilities			
Deposits			
Demand and non-interest-bearing	$ 233,943	$	$ 233,943
Savings and interest-bearing transaction accounts	1,017,805		1,017,805
Time deposits	881,666	(913)	880,753
Total deposits	2,133,414	(913)	2,132,501
Securities sold under agreements to repurchase	83,376		83,376
FHLB borrowed funds	226,203	4,736	230,939
Accrued interest payable and other liabilities	4,231	20,427	24,658
Subordinated debentures	57,733		